

PREFACE

We are publishing the Memorandum submitted by the AITUC to the Committee on Consumer Price Index Numbers. The Government of India set up this Committee with 14 members headed by Prof. Neelakantha Rath of the Gokhale Institute of Politics and Economics, Poona.

The Committee had wide and comprehensive terms of reference to review all aspects of the compilation of Consumer Price Index Numbers for Industrial Workers.

It has been the persistent complaint of workers that the indices presently compiled and also those of the past series do not adequately reflect the price movements of commodities, do not fully take into account the changing pattern of consumption, are not compiled with any detailed consultations with those for whom the indices are intended, etc.

The AITUC has been agitating since early sixties against index fraud due to which workers were losing in hundreds of crores of rupees in dearness allowance and held an All-India conference in Bombay on Index Fraud and DA at 1963 end. The AITUC published *The Index Fraud* which was a reproduction of the memoranda submitted to the Lakdawala Committee appointed by the government of Maharashtra to enquire into the Bombay Index soon after the General strike that took place in Bombay on this and other issues on 20 August 1963. Such Committees were also appointed subsequently for Ahmedabad and Delhi indices. Complaints of workers were upheld by these committees and partial rectifications were made in the indices of the respective centres. At the 21st Session of the Standing Labour Committee held in Delhi on 27 December 1964, the AITUC proposed an agenda to discuss the question of consumer price index numbers published by the government which were found to be grossly inaccurate in reflecting the price trends. Even at the earlier meeting of the standing committee of ILC on 5 August 1963 the TU representatives challenged the very basis of calculation of the CPI numbers.

The 1960 series of indices had not then come into effect and when introduced in 1965 they were found to be carrying forward serious defects and deficiencies as have been amply brought forth in this memorandum.

Some Committees were also appointed in the subsequent years by state and central governments relating only to the linking factors between different base years series, the last being the Bhattacharjee Committee in West Bengal. This is for the first time a Committee was set up by the Central Government with such wide and comprehensive terms of reference to cover all aspects of the compilation of the indices, which also included workers' representatives.

The AITUC besides submitting this memorandum appeared before the Committee on the 13 September 1977 to give oral evidence. The government resolution appointing the committee with the list of members and its terms of reference is also being reproduced.

New Delhi
October 1977.

AITUC SECRETARIAT

MEMORANDUM TO THE CONSUMER PRICE INDEX REVIEW COMMITTEE

The index numbers are a universally accepted device for the purpose of measuring changes in consumer prices for the working population in relation to a specified period usually called a 'base' year. In a capitalist society, the entire price mechanism is wielded and manipulated by the capitalist class with a view to ensure the appropriation, rather mis-appropriation, of the gains of work and labour of the society in general and the working-people in particular. To defend themselves, at least partially, against this perpetual onslaught on their living standards, based on their wage income, the working people, in the course of their long and bitter struggle for a fair deal, have been able in many segments of modern industrial structure to secure the enforcement of wage contracts providing compensation to them in varying degrees for increase in prices of the goods and services considered essential to preserve or maintain a certain level of existence or 'standard of living'. In India such compensation has come to acquire the nature of payment of Dearness Allowance.

In such a situation, naturally, variations in prices lead to a flow of considerable amounts of money from one class to the other. Hence the immense importance of measuring accurately and fairly the increase in the prices of commodities and services consumed by the workers for whom the protection of their real wages against constant erosion through rising prices is of vital importance.

For this very reason too the employers, who as a class resort to constant increase in prices are interested in manipulating the measurement of price-rise so that the apparent rise, as reflected through the price Index, always lags as far behind the real rise as

possible. A situation had thus been developing where persistent rise in price spiral, intensified by such manipulations through the agency of pro-employer bureaucracy, has been leading to the variation between the real price rise and the apparent price rise to substantial degrees, resulting in countrywide protest and struggles by the working class against what has rightly been called index-fraud. Sensing the depth of the feelings of the working class and the justification underlying the agitation, some of the State Governments made half-hearted attempts during the sixties to remedy the situation by setting up Index Enquiry Committees. Despite serious limitations inherent in the theory and practices of computation of consumer price indices as adopted in our country almost all such Committees *did* reach the conclusion that the consumer price indices did *not* in varying degrees reflect the actual rise in prices of even the scanty commodities and services constituting what is known as the 'consumption basket' of the average working class family. Corrections applied to the respective series of indices as a result of the findings and recommendations of these Committees, however, touched no more than the fringe of the basic problem of laying down in a comprehensive and authoritative manner, the principles or concepts, the methodology and technique that must govern the computation of consumer price index so that it becomes responsive not merely to price variation, but also to the operation of socio-economic factors affecting the pattern of life of our impoverished masses. It need hardly be stated that this pattern of life of consumption is constantly and substantially influenced in the modern market economy by what is called 'product variations' or what the classical economists call 'dynamics of consumption in a developing economy'. The vital question of making index numbers really representative of the changes in the prices of commodities and services actually consumed by the working class, therefore continues to hang fire.

The appointment of this High Power Review Committee by the Government of India, with its wide and comprehensive terms of reference, is therefore, as opportune as it is welcome. The Committee will, no doubt, go into the wide range of problems that call for basic solutions covering the structural, methodologi-

cal and technical aspects and deficiencies in the construction and computation of working class consumer price Index.

The two main constituents of Price Index

The existing system of computation of consumer price index rests on two main pillars or constituents viz (i) weighting diagram (ii) Retail prices. Each of these two main constituents is the product of a number of subsidiary components on the accurate and fair assessment, measurement and appraisal of which depends its ultimate validity.

The 'weighting diagram' and the 'fixed basket' theory

The drawing up or derivation of a correct or realistic weighting diagram undoubtedly is the first and the most fundamental step towards compilation of index numbers in accordance with what is known the Laspeyres formula. Rigidity and bias, with which the fixed 'basket theory' has been applied by the so-called pure theorists in the officialdom in relation to the 'weighting diagram' in computation of Price Index, is in our opinion one of the main underlying causes of many of the gross distortions detracting substantially from the validity of the Index as a fair and accurate device for measuring rise in consumer expenditure. The position taken up by these 'theorists' in substance comes to this—that there is an important relationship between the fixed 'basket theory' and the 'weighting diagram' and that as a necessary implication of this not only should the weighting diagram be based throughout the life of an index series on the same commodities and services as those which were originally utilised for the compilation of the base-year index number, but also 'group weights' and 'item weights' in the weighting diagram should remain unchanged, though there is no objection to accommodate changes in specifications. Obviously this 'accommodation' is intended mainly to accommodate and oblige the operators of our free-market economy, one of whose important weapons to fleece the people and the working class is to practise frequent quality or grade variation in their products, which is another name for

substitution in the market of inferior quality goods for those of superior quality without reducing prices thereof. It is such diehard interpretation of the fixed-basket theory that enabled the Government to continue to maintain for decades together a number of hopelessly out-dated, outmoded and utterly inaccurate index series with weighting diagrams which from their very inception failed to represent or reflect the living or consumption pattern of the average working class family. The first task of this Committee therefore, is to express itself in unambiguous terms against such absurd interpretation of the fixed Basket theory, and in particular to hold that there is no unalterable or organic relationship between the fixed basket theory and the weighting diagram. The extent and nature of such relationship is dependent on a number of factors or conditions intimately linked with the various essential components of a weighting diagram. Such relationship ceases the moment the 'weighting diagram' fails to reflect the pattern of consumption of the worker *realistically*. It can be revived only by introducing such changes in the weighting diagram as would make it reflect the consumption pattern of the worker accurately and realistically—a pattern which conforms to the experience of the working class.

Basic requirements of 'Weighting Diagram'—incorrect appraisal and estimation of its essential components in the existing Index-series

It has been commonly accepted that weighting diagrams of various existing index series have become unrealistic and unrepresentative of the consumption pattern of the working-class. This is natural also in view of the long periods that have elapsed since the family budget surveys on which these diagrams are based were carried out. What is surprising, however, is that not only the weighting diagram of 1960 series Index, but even the weighting diagram on which 1971 index series is based is being allowed to suffer from the very same distortions and deficiencies which rendered the earlier index series unreliable.

In order that an average 'Budget' which emerges from a family

Budget Enquiry and the weighting diagram derived therefrom could hold valid for any given length of time, it should satisfy the following conditions:

(1) Adequacy of sample size, (2) Representative Character or design of the sample—(i) in respect of wage groups covered; (ii) in respect of its locational spread; (iii) in respect of numerical composition of an average family; (3) Realistic estimation of family expenditure for constructing the family budget in the base year, keeping in view the sociological and ecological aspects of the contemporary life of a worker. This would essentially imply :—(i) realistic quantitative assessment of the composition of the consumption basket and accurate pricing of the same; (ii) proper listing of pricing units and the base price thereof; (iii) selection of qualities or specifications so that they reflect normal consumption-habit or actual preference of the workers; (iv) the laying down of details of specifications or quality in such a manner that quality can be identified uniquely, (v) proper i.e. proportionate reflection of consumer expenditure of each wage or income group in the consumption basket on the basis of which the weighting diagram is drawn up (4) validity of imputations; (5) ensuring full consultation with the workers' representatives at every stage of preparation and finalisation of the weighting diagram.

1. *Sample Size*

It is rather intriguing to note that despite sizeable increase in the strength of industrial work force in almost every major centres a steady reduction in the sample size in every case has been taking place. It is a common feature of the family budget surveys of different centres that the sample size has been shrinking in direct proportion to the increase in the number of industrial workers. No valid explanation has been given for this. To take the example of Delhi the 1943-44 survey related to 1,143 budgets. The sample size shrank to 743 family budgets in the 1958-59 survey. The sample size was further reduced to cover only 648 families in the 1970-71 survey. This inexplicable reduction of sample size under the circumstances cannot but result in erroneous conclusions with respect to the actual family

expenditure of Delhi workers. This naturally detracts from the validity of the Weighting Diagram.

2. *Unrepresentative character of the sample in respect of wage groups covered*

It has been noticed that the sample selected for the family budget survey for the purpose of computation of index number is based almost in every case on un-representative pattern of income of the working population whom it is intended to serve. As aptly observed by the Maharashtra State Committee of the AITUC in its Memorandum dated 29 July 77 submitted to the Committee, in a city like Bombay where the wage differentials are very high both between different industries as well as within a particular industry itself, this is all the more true. We would quote approvingly from the Memorandum: "Thus, for example, the average wage for Bombay city on the sampling done for the purpose of the 1971 series as per the Report of the Director of the Simla Bureau worked out to Rs 440/- p.m. Obviously, in the unanimous opinion of the trade-union representatives, who gathered to discuss the Report, this did not reflect the Bombay reality. In Bombay, the correct range in the opinion of all trade-unionists would be Rs. 150/- to Rs 300/- p.m. Obviously, an index based on such un-representative income group would not be representative of the class for whom it is meant. We, therefore, submit that in working out the sample, proper precautions will have to be taken to see that the most numerous salary groups are represented in the survey in-proportion to their numerical strength and that the weighting diagram and the index is based on such sample."

Again, in the case of Delhi the average income per working class family is Rs 296/- p.m. according to the 1971 survey. But according to a more recent survey of the Delhi Administration, undertaken by its Bureau of Economics and Statistics in co-operation with the National Sample Survey Organisation, over 42% of the total house-holds in the Capital City have an income of less than Rs 300/- p.m. [Vide Report on the Family Living Conditions of the House-holds in Delhi published by the Bureau of Economics and Statistics, Delhi Administration,

Delhi in the year 1971-72 at page 7]. The working-class population, particularly that section for which the index is intended, undoubtedly cannot constitute more than 42% of the population. On this basis, the average income per family would be somewhere between Rs 150 to Rs 250/- p.m. It is equally clear again that the Weighting Diagram for 1971 survey of the Labour Bureau for Delhi has been derived on the basis of samples majority of whom fall in the income groups of above Rs 250/- p.m. A weighting diagram based on such heavy weightage to an income group which is not representative of the majority of the section of the population for whom the index series is intended cannot obviously reflect the reality.

This criticism holds good in respect of the index series of almost every other centre.

3. *The Locational Aspect*

It can hardly be disputed that with the steady development of industries without any where near commensurate housing facilities and also due to other factors like large-scale demolition or clearance of slums, wholesale shifting of habitations of industrial workers (particularly those in the lower wage groups) to new, generally far off colonies or clusters of colonies, has been taking place almost at every centre covered by the family budget surveys. Whatever scanty information has so far been made available to the workers' organisations point to the fact that coverage of samples has not been extended to such colonies. For reasons best known to the authorities, even the 1971 survey has been kept confined to a few old working class localities which have by now lost their once labour concentrated character. This has introduced serious distortion in the expenditure pattern as reflected in the Weighting Diagram in respect, particularly of House Rent and Transport Charges. This has also resulted in confining the market centres from which prices are collected for compilation of index numbers to a few old centres many of which no longer serve as retail markets for the majority of industrial workers. This factor has a recurring adverse effect in the computation of price index, as we shall show later.

4. *Numerical Composition of the Family*

It would appear that due to the foregoing deficiencies in sampling, a third deficiency, viz, that of inaccurate numerical composition of the average working class family at various centres has crept in. Taking the example of Delhi, according to the 1971 Family Budget survey, "the average number of persons per family (estimated)" has been put at 3.6—consisting of 1.4 adult, male, 0.8 adult female and 1.4 children. But according to the survey of the Bureau of Economics and Statistics of the Delhi Administration, referred to in the item (2), the Households in the capital city with a monthly income of less than Rs 250/- have an average size of 4.15 and those in (income) between Rs 250 to Rs 599/- have a family size of 5.12. Incidentally, the percentage of house holds falling in the two major income groups referred to above, to the total number of house holds in all the income groups covered by the survey is 33.16 and 43.15 respectively. This obviously means that families in Delhi having a monthly income below Rs 600/-, constituting over 76% of all the families have a size of 5 persons or consumption units (vide page 8 *ibid*). There have also been complaints from some other centres against undue numerical weightage given to single member families over multi-member ones in the 1971 survey.

Such gross under-estimation of the numerical composition of an average working class family would obviously lead to equally gross under-estimation of the family expenditure of working class households with consequential distortion of the Weighting Diagram.

5. *Realistic Estimation of Family Expenditure in the base year*

That the structural soundness of a weighting diagram in the first instance depends on the realistic estimation of the expenditure incurred by the working class families on various commodities and services in the base year is indisputable. In the past, such estimation appears to have been made in a more or less mechanical manner. Those entrusted with the highly complex and delicate task of family budget survey, which in the consciousness of the average worker tends to amount to pry-

ing into his family affairs, have gone through the job in a *mechanical fashion* biased more in favour of fulfilling the requirements of the 'family budget schedules' and of the observance of the so-called 'standard technique' than in favour of eliciting the maximum information relating to the expenditure data of the house-holds concerned. Little attention has evidently been paid to the diversities or complexities of life in our country, with wide-ranging topographical, physical and regional variations, ecological traits and social psychological make-up of the population, living under different economic and political conditions from State to State. It hardly needs emphasis that such variations in conditions of living necessarily introduce important changes in food and clothing habits of the people from region to region, which have to be taken full care of. Differing degrees of local taxation, health and housing regulations, controls, prohibition laws, formal and informal rationing etc. exist. Such factors readily influence the consciousness of the unimaginative investigator who is apt to temper his investigation and inquiry with consideration of conformity with such local regulations. There is abundant material to show that under-estimation of essential requirements in terms of quantity and hence of the total family expenditure on different items has taken place due to these factors. The ignoring of quantities of important food items purchased in the black-market, euphemistically called open-market, absence of warm clothing and winter bedding (rajai, gadda etc.) from the consumption basket in the northern region, almost total absence of fresh and leafy vegetables from the basket in case of every centre in the 1960-index series, fantastic variations in the brands of foot-wear selected for inclusion in the consumption basket at different centres are some of the instances of gross under-estimation and distortion of the essential requirements of workers in the regions concerned.

We would therefore strongly urge that a thorough dialogue must take place between the workers organisations and the authorities with regard to the scope and content of family budget schedule and of the so-called 'standard technique' adopted in family budget surveys before such surveys are actually launched.

To ensure realistic quantitative assessment of composition of the average budget and the consumption basket, no item or service actually consumed/utilised by the worker should be excluded from it, if the weighting diagram derived therefrom is to reflect the genuine consumption pattern of the worker. The exclusion of essential consumption items like tobacco, biri, cigarette and intoxicants etc., which enjoy a substantial weightage in family expenditure, even in the 1971 series under some silly decision of the Cabinet sub-Committee for Economic Coordination is nothing but reducing the index to a farce. It is inconceivable to think of a factory worker in India without his association with one or more of these items.

Similarly, non-representation of several items of expenditure, including service expenditure in the weighting diagram by drawing artificial distinction between consumption and non-consumption expenditure, or on grounds of alleged pricing difficulties cannot be accepted as proper or valid. Expenses incurred on account of Trade Union Contributions, ceremonies and festivals, remittance to dependants, interest on repayment of debt which constitute indispensable items of expenditure must be suitably accommodated in the weighting diagram.

On the other hand, inclusion in the consumption basket of durable items, some of which can be called luxuries for the average worker such as watches, radios, transisters, furniture and items which represent long term expenditure like stainless steel utensils etc. should not be included in the consumer basket. Such items in our opinion represent capital or semi-capital expenditure. Since they are not susceptible to price fluctuations over fairly long periods, if given a weightage in the weighting diagram, would only serve to exercise a downward pull on the index.

Quantities of commodities purchased in the open market must be fully taken into account for proper representation in the consumption basket as they are as much part of the essential requirement of a worker's family as those made available in the controlled or rationed market. It is an indispensable fact borne out by the experience of any one having an inkling into the

family expenditure and requirements of an average working-class family that the quantities of essential food items, including rice, wheat and sugar available from ration or fair-price shops, are in no case sufficient to meet the requirements of a manual worker.

In this connection, we would also refer to the facts and figures cited in the memorandum submitted by the Karnataka State Committee of this Organisation to the Index Review Committee—Vida Para 1, page 3 of the Memorandum dated 19th July, 1977. It is obvious that even the results of the 1971 family budget survey suffer from serious distortions on account of foregoing deficiencies.

Defective quotation of pricing units in the base year and consequences thereof

One of the major short-coming of both the index series, i.e. the one with base year 1960 and the one with base year 1971 is the unrealistic, irrational often anarchic selection of quotations of pricing units in the base year. It is indisputable that even in retail market when commodities are purchased in greater quantities or bulk the prices paid per unit of the same commodity work out to less than when they are purchased in smaller quantities. Workers generally buy most of the daily necessities of life in small measures or quantities, because of tight cash position. In such a situation the pricing units selected for each item must be based on a careful study of the actual pattern of purchase of the average worker. Analysis of the price schedules and the pricing units in respect of some important centres unmistakably points to the fact that not only that the pricing units are totally unrelated to the purchase pattern of the worker, but also that such irrational and un-reaslistic adoption of pricing units has been resulting in gross under-estimation of the prices that workers have actually to pay for various commodities. This, in turn, is tantamount to manipulating consumer price index numbers to the detriment of the workers. Statistical table marked Appendix 'B' illustrates thoroughly inconsistent and irrational position of price unit quotations in the two index

series in respect of some of the major centres—Bombay, Calcutta, Madras, Kanpur, Jamshedpur and Delhi. It will be seen from the table that the pricing units adopted in respect of expensive food items like curd, ghee, meat, fish, sweet, snacks are in most cases in terms of a k.g. The same is the case with regard to most of the perishable vegetables and fruits like banana for which the unit adopted is a dozen. Price units in case of pan-leaf range from a bundle of 25 to a bundle of 100. Quotations in respect of supari range between 50 grams in Kanpur and Jamshedpur to 1 k.g. in Calcutta and Madras. What is most surprising is that the price unit adopted in respect of most of the items even in the spices group like turmeric, dry chillies, garlic, coriander is in terms of one k.g. at most of the centres. In case of Calcutta and Madras, the unit adopted even for ginger and pepper is in terms of a k.g. One cannot simply conceive that an average worker could afford to purchase spices, which constitute the most expensive item in the dietary even of high income groups, in units of a k.g. An appropriate unit for the spices group should range between 50 to 250 grams.

In the fuel and light group, the price unit quoted ranges between 25 k.g.s in Madras to a quintal at Jamshedpur and Delhi. Apart from the expenses involved, an average working class tenement does not possess the storage capacity for a quintal of fire-wood. The appropriate unit in this case should range between 10 k.g.s., in the case of soft coke, to 37 k.g.s. in the case of fire-wood.

Clothing items: Price units adopted for Dhoti, saree, bed-sheets and durrie are either in terms of each piece or a pair. The unit to be adopted in the case of these expensive items should uniformly relate to a piece.

ESI premium: Different pricing unit has been adopted at different centres. The price unit in respect of this item must be based on that part of the workers average contribution to the ESIS which is in the nature of a price of pre-paid 'health care rates for stipulated maximum quantities of medical services'—Report of the ILO on Computation of Consumer Price Indices

(special problems, p. 112). We shall deal with this subject further in the later part of the memorandum.

Transport: In the case of transport i.e. bus and rail fare, again different price units like 'per passenger' or 'per kilometre' have been adopted at different centres. In our opinion price unit in this case should be in terms of cost of travelling for an adult to a particular minimum distance depending upon the extent of travelling involved at each particular centre.

Misc: Group

The anarchy and utter absurdity in the matter of price unit quotation is evident from the quotation in the case of hair-oil in the Misc. group. The unit in this case is different for different centres e.g. 40 ounces in Delhi, 100 to 114 ml. bottle in Bombay, 200 m.l. bottle in Madras, 125 to 170 m.l at Kanpur and 1 k.g. in Calcutta. The absurdity of a pricing unit in terms of one k.g. for hair-oil needs hardly any comment.

House Rent : No pricing unit has so far been worked out or evolved in respect of this extremely important item of expenditure. We consider that an appropriate price unit for this item should also be worked out in terms of floor-area. We shall deal with this important problem subsequently.

The gross under-estimation of the extent of actual price-rise and hence of the CPI index numbers, would be evident from the example of pricing of Ghee at Jamshedpur Centre. The pricing unit adopted in respect of Ghee in the 1960 series at Jamshedpur is a K.G. while the unit has rightly been altered to a tin of 233 grams in the 1971 series. The price of one k.g. Ghee in the month of May in the 1960 Index series has been shown to have risen to Rs 23.35, but in the 1971 series the price of 233 grams of ghee is shown to have risen to Rs 8.16. Calculated in terms of a k.g., the price of one k.g. of Ghee at this Centre in the month of May works out to Rs 35/-. This manifestly show that in the 1960 series of index number, the price of one k.g. of ghee has been under-estimated by a substan-

an amount of Rs 11.65, with the disastrous consequences as regards the validity of the index itself.

Laying down of specifications and proper selection of qualities

It is an established fact that index numbers relating to almost every Centre have been subjected to serious and constant depression or underestimation due to inadequate and indifferent description of specifications and arbitrary selection of qualities in the base year. Improperities committed on this score have enabled the price collection machinery to resort to highly improper 'substitutions' and 'splicing' subsequently to depress the index relating particularly to essential groups like food, clothing and miscellaneous.

Dealing with the important factor of qualities and specifications the publication entitled 'Cost of Living Index Number in India—A Monograph' (Labour Bureau, Ministry of Labour, Government of India) has this to say: "The most important problem in the collection of retail prices is to lay down specifications for the pricing units so that the prices may relate to the same qualities of goods and services. Specifications cover both grades and varieties. Grade is a broad classification e.g. inferior, medium and superior. By variety is meant a particular brand or make. It is *not enough* to describe the quality as ordinary, common, etc. It should be described in such detail as will enable the price collector to identify the quality in a unique manner. In the case of clothing articles details regarding the count of cloth, the type of border, whether coloured or plain, mill numbers etc. are helpful in distinguishing the prescribed quality and in sticking to it over a period of time. If School-fees are being taken into account in the index, it should be laid down to what type of schools and to what classes such fee relates. For bus-fare the exact distance of the journey and the class by which the journey is performed should be laid down. Only with such detailed specifications can it be assured that prices relate to the same or equal quality of goods and services throughout

the existence of a Cost of Living Index Number Series." (pp. 49-50).

The above weighty directions of the Labour Bureau have been observed more in breach than in practice at almost every centre in the past. What is even more surprising and regrettable, however, is that despite persistent protests and objections from the workers' organisations and notwithstanding the pointed attention drawn by several Index Enquiry Committees, set up by State Governments, to the continuing default on this score, it is allowed to persist even in the latest (1971) Index Series.

Unfortunately we are not in possession of the schedules of specifications of item included in the 1971-Index Series relating to most of the Centres. We would, however, try to substantiate our contention with a few examples from Delhi Index (1971).

Food

Wheat : The only specification laid down for this foremost important item of consumption is 'Kalyan'. This variety is confined mainly to Fair Price Shops only. However, in the open market, in which most of the workers are compelled to make purchases because of the limited availability of wheat in the Fair Price Shops, the following qualities are available and are acutally preferred and purchased by the workers:

<i>Item and quality</i>	<i>Current market Price (Rs per k.g.)</i>
Wheat Kalyan	1.30 to 1.40
" Deshi	1.50 to 1.80
" Sangam	1.80
" No. 306	1.50
" No. K-68	1.60

It is notewerthy that because of totally incorrect estimation of quantity of wheat consumed by a working-class family and

exclusion of other specifications of popular varieties of wheat in the open market the average price pr kg. of wheat in May 1977 has been shown as Rs 1.29 per Kg. in the price schedule relating to the 1971 index Series. Evidently the price quoted relates only to wheat sold through Fair Price Shops without regard to any quality.

Sugar (Other Food sub-group)

The case of sugar is completely identical to that of wheat. The price and specification schedules relating to the 1971 Delhi Index show that the specifications have been spelt out in ridiculously vague manner. The description "medium, Small crystals" is totally misleading. Some of the Crystal Sugar qualities commonly purchased by the workers in the open market and the corresponding current retail rates are :

<i>Quality</i>	<i>Price in Rs. per kg.</i>
1. Grade 'A'	4.50
2. " 'B'	4.40
3. " 'C'	4.30
4. " 'D'	4.10
5. Sulphur	3.75
6. Lyzer	3.60
7. Desi 'Khand'	3.50

Again in this case the price schedule relating to 1960 index quotes the price of sugar in May 1977 at only Rs 2.15 per Kg. and the one relating to 1971 Index at Rs. 2.51 only, which is the rate at which a limited quantity inferior quality sugar per family is available in Fair Price Shops. The mischief again is ascribable to quantitative underestimation as well as absurdly vague specifications in the base year.

The price schedules in respect of both 1960 as well as 1971 Index Series pertaining to most of the major Centres available

to us unmistakably indicate that such serious under-estimation and deliberate disregard of the important quality factor in respect of the indispensable item of sugar is being persistently repeated at all these Centres, as the following table would show:

<i>Centre</i>	<i>Average price per Kg. in May, 1977 (1960 Index)</i>	<i>Average price per Kg. in May, 1977 (1971 Index)</i>
Calcutta	2.15	2.15
Kanpur	2.15	2.15
Madras	2.15	2.15
Bangalore	2.15	2.15
Jamshedpur	2.15	2.15

This evidently shows that the index relating to sugar has all along been kept constant which is nothing but a fraud. on the workers.

The accuracy and validity of the Index Numbers in respect of cloth and bedding items has all along been subjected to serious challenge from the side of the workers. It is an admitted fact that frequent market variations in the grade, quality of the product is the most common feature of the textile manufacturing industry. The specifications and qualities of the product are subjected to constant change in accordance with what is called market demand. The quality number in terms of which the specifications are laid down often vanish from the market even before the actual computation of index on a particular base starts. Substitutions and adjustments are then made, from month to month even from week to week by the price collection machinery at its own sweet will. The narrow range of 'brand' selected for the base year pricing provide little scope for switching over to other brands with the equivalence in quality content and intrinsic worth to which the majority of workers switch their preference. Thus, for example in the case of Delhi the specifications of clothing items relate to the products of D.C.M. alone.

The quality description given in all the cases mainly covers merely quality number of DCM manufacture alone. Market survey undertaken by us reveals that product with these quality numbers had long back ceased to be manufactured. Evidently, the prices now being taken into account relate to entirely different qualities and even items of manufacture. The prices collected are therefore either totally hypothetical or relate to entirely different qualities with arbitrary substitutions. A mere glance into the *Appendix 'A'* would disclose the marked difference between the prices of the very same items of clothing at the same centre during the same month (i.e. May, 1977) in the two index series. There is no other explanation for such marked variations in the rates or prices of the same item except that the qualities that are being taken into consideration for collection of prices in the 1960 series are either hypothetical or relate to qualities which are much inferior to those adopted for pricing in the base year. The facts emerging from a study of the facts and figures contained in the appendix also conclusively prove that the supposed or real qualities to which the prices relate are no longer in use by the workers who have been compelled to switch over to the qualities specified in the 1971 series. The average budget of the weighting diagram emerging from it in respect of the 1960 index series, have evidently become totally unrealistic and the index compiled thereon, especially in respect of clothing and bedding group can no longer be held valid. Sticking to such a weighting diagram amounts to deliberately perpetuating the under-estimation of the index numbers.

Statistical inaccuracy of the 'average family' budget for drawing up a correct weighting diagram

That the so-called average family budget on the basis of which the weighting diagram is drawn up suffers from serious technical and statistical lacunae has been stressed on the authorities more than once by the various working class organisations. The Karnataka State Committee of this organisation has, for example, very correctly highlighted the disproportion and distortion introduced in the weighting diagram because of inexplicable

statistical fallacy in the derivation of an average family budget instead of a standard family budget. In its memorandum dated 9th July, 1977 submitted at Bangalore, the Committee stated as follows:

“For the purpose of arriving at the weighting diagram, average family budget is taken as the basis. In the survey held in 1958-59, the working class families were grouped with reference to the various income slabs (about 7). The monthly expenditure on various items like food, fuel, lighting etc. was found different in different income slabs. The percentage of expenditure on food, fuel etc. with reference to the total expenditure was also different in different income slab or income groups. In this state of affairs, would it not have been better to have taken the weighted average of the consumer expenditure rather than taking a simple arithmetical average? We venture to suggest that a *weighted average* rather than the arithmetical average would be more representative of the expenditure pattern of the 744 working class families in different income ranges.”

The validity of the above objection, based on well-settled statistical principle cannot be doubted. The methodology adopted by the Labour Bureau in this respect serves to depress the weightage of major and essential items and groups of consumer expenditure. Since the prices of items included in these major groups have been rising more rapidly and more steeply than the other items in the consumption basket, the unmistakable result is that the consumer price index numbers consistently fail to reflect the actual price rise in family expenditure of a worker. We therefore strongly urge upon the Committee to recommend that the statistical error introduced in the weighting diagram on account of the above factors should be remedied by introducing the element of weighted average instead of simple arithmetical average.

Soundness/validity of Imputations

Unsound or improper imputations which marked some earlier series of Indices, continue to be projected into the current

Series as well as in the 1971 Series, thus distorting the composition of the consumption-basket and the weights assigned to different items and groups in the weighting diagram. Dealing with the necessity and justification of imputations, the Labour Bureau argues: "No loss in accuracy will result if out of a few items having a similar price-trend only one is selected for pricing and the total weight of all the other items is assigned to this one priced item. from the technical point of view, the proper criterion for imputing the expenditure on any item to the expenditure (or expenditures) recorded on any other item/items should be similarity in price movements." etc. But taking such vague and general assertion is not at all sufficient to justify every case of imputation. Some sound criterion or principle must be adopted for uniform application to all cases where imputation is resorted to. Dealing with the question of evolving a criterion for judging the significance of the expenditure on a particular item or items, (which appears to be one of the main considerations underlying the long list of imputations resorted to by the Bureau in the process of preparation of weighting diagrams for different centres) the Tenth International Conference of Labour Statisticians held in 1962 in Geneva, observed as follows: "The test of significance may be the percentage (over one or two hundredths) of the average budget represented by the item. . ." (Composition of Consumer Price Indices (Special problems) Report IV-p. 9. Dealing with the same subject, the Report of the Expert Committee on Readjustment in the Delhi CPI numbers, opined as follows: "The Committee adopted this criterion with minor modifications to match the special circumstances of the present investigation and decided to consider for inclusion in the weighting diagram all those items, the expenditure on which formed 0.25 per cent or more of the total expenditure. A lower figure of percentage expenditure on a particular item was chosen in view of the lower levels of incomes of the working class in India, when compared to developed countries." As regards the criterion of "Similarity of price movement", the pertinent point is how and during what period such similarity of price movement is to be watched. In a developing country like ours with free-market economy, com-

parative price-movements of different commodities and services seldom display uniformity. This can be taken care of only if the price-movement of the items the expenditure on which is proposed to be imputed to some other item or items is examined for the period *not* prior to the base year, but *subsequent* to it. The purpose of an index series is to measure changes in the price-level for the period *subsequent* to the base year only.

Therefore if any item is excluded from the weighting diagram and its weight is imputed to any other item, it must be ensured that the relative price-movement of such of an item *continues to remain* sympathetic to the price-movement of the item of which its weight has been imputed. If on subsequent examination it is found that the price-movement of the two items has not remained sympathetic, although it might have been sympathetic in the period before the base year, then it must be included as a separate item in the weighting diagram on the basis of the study of relative price-movement in the period *subsequent* to the base year.

Examined in the light of the above sound considerations, many of the imputations even in the 1971 index-series would appear to have no rationale, behind them. All the more so in case of 1960 Index-series. We cite a few examples of what in our opinion are uncalled for and unjustified imputations in the 1960 Series.

Bombay :

Expenditure on 'Meals' is the *heaviest* in the section 'other food' —i.e. Rs. 12.69. Yet the item has not been priced separately and its expenditure has been imputed at the group-level. The element of 'service', fuel, etc. that go into determining the price of a meal has not been taken into account. It should not at all be difficult to obtain quotations of prices for meal charged by the more popular eating places in factory areas.

Coke :

The expenditure of Rs 0.87 on this important fuel item has been imputed to the group. The only explanation given

is "difficult to price-imputation done on general consideration". On the other hand this very item has been separately priced in the Index for some other less important centres. There can obviously be no difficulty in obtaining price data for such an important item of common use as Coke.

CALCUTTA

Milk

In the sub-group milk and milk-products the expenditure on buffalo milk (Rs. 0.12) has been imputed to Cow milk, although the expenditure on powdered milk (Rs. 0.10 only) has been separately priced.

Sweeper

Expenditure on this item (Rs. 0.05) has strangely been imputed to 'Boot-polish', although it could very well have been imputed to the 'House rent' group, or 'service-group' for that matter.

Laundry and Washerman

The item 'Laundry' with expenditure of Rs. 0.10 has been priced separately. But the expenditure on Washerman which is much more (Rs. 0.51) has been imputed to laundry. The rates charged by washerman in cities, more particularly in Metropolitan cities, are quite uniform and readily available. There is no justification for such imputation.

Meals

(Rs. 3.88)

Circumstances relating to imputation of the heavy expenditure on this item are similar to those of Bombay and the imputation is equally wrong.

MADRAS

Coal & Coke : Imputation of expenditure on this important and common item, instead of pricing it separately is again not understandable. The case is similar to that of Bombay.

Shoe & Boot : Expenditure on these items has been imputed to 'Chappal', which is just inexplicable.

Hair-lotion, Shampoo & Soap Nut

Expenditure on Hair-lotion and Shampoo (Rs. 0.33) to toilet soap and on soap-nut (Rs. 0.59) to the section is difficult to understand. Soap-nut in Madaas at least deserves separate pricing.

Sweeper: Expenditure in this case has been imputed to tailoring and laundering which is totally irrational.

Meal : Imputation of expenditure on meals, which is the highest in the sub-group (Rs. 4.66) is again improper.

KANPUR

Bajra : Expenditure on Bajra (Rs. 0.46) has been imputed to Barley which accounts for Rs. 0.35 only. Prices of Bajra, which has become a popular cereal in the north, have been rising much more rapidly than of Barley which constitutes mainly an item of animal-feed. Similarly the expenditure on Bajra 'atta' (Rs. 0.04) has been imputed to Barley atta (Rs. 0.01 only).

The imputation in both the cases is obviously absurd.

Meals

The substantial expenditure (Rs. 0.78) on this item has again been subjected to imputation as in case of Bombay, Madras, etc., and calls for separate pricing.

Rickshaw

Expenditure (Rs. 0.50) on conveyance by Rickshaw, which is the commonest mode of transport in the North, has been imputed to expenditure on travel by bus, which is 0.43 only. Rates charged by Rickshaw pullers are sufficiently uniform and specific for various distances and have been showing tendency to rise much faster than Bus rates. The imputation is evidently improper.

DELHI

Desi Sugar :

The expenditure on Desi Sugar, which is quite as expensive an item as Crystal Sugar, has been improperly imputed to 'Gur'. The imputation, if at all, should have been at the item-level of Crystal Sugar.

Horse-Cab (Tonga)

Rickshaw

Expenditure in this case again, has been imputed to Bus fare. Transport charges of Tonga and Rickshaw are known to have registered higher and more rapid increase than Bus-fare rates. The imputation does not appear to be sound.

Large-scale imputations in Clothing Bedding, etc. and the Miscellaneous group.

Large scale imputations of expenditure of items in these main groups is a common feature of the index in all the centres. While there might be some justification for clubbing ready-made clothing items with cloth as such, there is obviously no justification for imputing the expenditure on woollen items like Sweater/pull-over, blanket, wool, etc. on cotton-textile items. Price rise as between woollen manufactures and cotton-textile products cannot be said to be similar. Wool and its products should, in our opinion be priced separately.

Close consultation with workers' representatives at every stage in the process of preparation of weighting diagram

In order that a reasonably sound weighting diagram conforming to the actual pattern of expenditure/consumption could emerge from the results of a Family Budget Survey, the closest possible contact and consultation with the workers' representatives is indispensable. So far practically all the operations, right from the conduct of family budget survey to computation of the Index have remained a closed-book for the very section of the population whom it intended to serve. The entire

process remains shrouded in mystery. Irrespective of whether and to what extent the Index Series and the rise in consumer expenditure which it claims to reflect, conform to the actual experience of the worker in his dealings with the market, the average worker cannot be expected to have much faith in them unless and until he and his representatives are taken into confidence at *every stage* of their preparation. Steps must forthwith be taken, therefore, to ensure that this necessary precondition is satisfied not only in respect of the Index Series constructed in future, but also in respect of the existing and the 1971 Index-Series, the weighting diagrams of which have been shown to be based on materially deficient appraisal and estimation of the results of the various Family Budget Surveys. A permanent machinery with full representation of the workers' side must be set up at State as well as local/Centre level for this purpose.

Collection of Retail prices

Besides the derivation of a realistic and correct weighting diagram, the other pillar on which the validity of an Index Series rests is scrupulously accurate collection of retail prices. Besides laying down in unambiguous terms specifications in terms of quality, grade, variety and brand for all commodities included in the consumption-basket/weighting diagram, the other important steps involved in price collection are :

- (a) Selection of market centres which are representative of the *entire area* in which the working class resides;
- (b) Selection of shops which must be representative of *all the shops* commonly patronised by the workers;
- (c) Collection of weekly prices through well-trained investigators, fully acquainted with the consumption and shopping habits of the workers, and if possible with sufficient contact with the workers themselves;
- (d) Scrutiny and verification of the price-data to ensure, particularly, that the prices collected *are those actually paid by the workers' families* and that substitutions and adjustments for quality-difference, where rendered necessary, are applied in accordance with well-settled principles.

As regards the selection of market centres, we have stated, earlier, while dealing with the subject in the context of preparation of a standard family budget and derivation of the weighting diagram, that the selection of market centres for the current as well as the 1971 index series is far from satisfactory. New market areas arising as a result of emergence of new working-class 'busties' or colonies, must be added to the list of market centres as and when they come into existence and centres which lose the character of retail-shopping centres for workers must be deleted from the list. The current practice of continuing to attach some sort of sanctity alone to the market centres selected during the base year, must be given up.

(b) *Selection of Shops* : As in the case of selection of market-centres, selection of shops must not be restricted in respect of its locational or numerical aspect. Not only should new shops located in newly established workers' 'busties' or colonies be added to the original list, but more shops should be added thereto from the old market-centres. In fact looking to the recurrent defaults by the price-collecting machinery in this matter, we are of the firm opinion that sample *relating to shops should be a MOVING* one and *not* a fixed one as at present. Simultaneously it must be ensured that the shops selected are *actually* and *commonly* patronised by a substantial number of working-class families. We also strongly disfavour collection of prices from, so-called 'subsidized' or 'fair-price' shops set up by or at the instance of the employers. Such shops, more often than not sell shop-soiled or damaged goods or commodities at so-called concessional rates. Moreover there is little choice as regards quality or variety in these shops with usual restrictions in respect of quantity also. Absence of credit facilities is another factor which prevents majority of the workers from patronising such shops—a factor which also operates in case of government-run fair-price shops. List of shops selected should normally *exclude* the ones falling in both these categories.

(c) *Collection of weekly prices, etc.*: Having carefully selected appropriate number of really representative market-centres and shops, we come to the most important work of collection of weekly prices. The first pre-requisite for ensuring fair and

objective collection of prices is that the prices collected must be the *prices actually paid by the consumer, the working class family* in this case. This well-settled principle of computation of CPI number has all along been flouted by the price-collection machinery. It is obvious from the unrealistic and abnormal pricing-unit quotations of both the series of indices in respect of various centres that the prices collected are *in effect always the prices quoted by the shop-keepers* and not the prices actually paid by the workers who purchase most of the items in much smaller units or quantities. We may again refer here to the contents of appendix 'B' attached hereto illustrating the totally hypothetical nature of the unit-price quotations on the basis of which prices are obviously being collected.

The second important factor in price collection is that relating to timings. This is of particular importance and relevance to collection of prices of a number of items of perishable or semi-perishable nature, like vegetables, fruits, milk and several milk-products like curd, Lassi, etc. As the day advances into evening and night, the vendors of such items dispose of the 'left-overs' at comparatively cheaper rates at the risk of the buyer. It is, therefore, essential that the timings of collection of price-data should be restricted always to fixed morning hours if the *actual* price is to be reflected in the Index number.

The third important factor in price-collection work is the frequency of price collection. If the index is to reflect the actual variations in prices, price-collection work should not be confined to one day in a week. Prices should be collected on *at least two fixed days* in a week to introduce the elements of reliability and accuracy in measuring price-variations.

(d) *Scrutiny and verification of price data, etc.*

More scientific scrutiny of price-data collected by the investigators by superior authority than at present is necessary to check on the accuracy and reliability thereof and to resolve anomalies or distortions manifested therein. In this connection besides ensuring that the prices collected are the prices actually paid by the consumer, the most important problem is that of substitution arising out of quality-change or forced change resulting

from disappearance or non-availability of a particular commodity or services in the market. The bitter experience of the worker so far has been that index-number has been subjected to frequent artificial deflation either by substitution of inferior quality, grade or variety of the item concerned for the original variety or quality or by repeating the previous weeks, or months' prices. In some cases price-quotation was substituted by the words N.A. (not available). Much damage has been caused to the workers by such serious lapses in the computation of Index Number, in particular in respect of the clothing-bedding and Foot-wear group.

Substitution: The supervising authority must see to it that substitution is based on the internationally accepted principle of *equivalence of quality, content and intrinsic worth*. In the case of change in quality or grade, the choice or selection of another quality or grade must be made to err on the side of the one *superior to it* and not the one inferior to the original quality since any adjustment for quality-difference is bound at best to be an arbitrary one. If at all no choice is left except that of splicing due to total disappearance of the item from the market, the full details of calculations relating to adjustments must be recorded in writing. However, in actual fact the workers themselves do switch over to substitutes in all cases and a conscientious and careful investigator having reasonable contact with the life of workers, can and should be able to find out and record the result of such substitution. It is in case of situations similar to this that the universally accepted concept of *forced-change* must be made fully applicable.

Forced Change

In a developing country like ours, based on what is called free-market economy, numerous changes are likely to occur in the consumption pattern of industrial workers, not only because of their choice but also because of 'product-variation' and changing market conditions, as well as socio-economic and technological changes. Social legislation and various regulations introduced by the State also not infrequently lead to, or 'force', a change in the consumption pattern of the working class. Enactment of measures like the Employees' State Insurance Scheme, introduc-

tion of compulsory primary education, and measures undertaken by some local authorities to enforce certain standards in respect of Housing, etc., are some of the more important causes leading to such forced change in consumption-pattern. We are of the considered opinion that changes in consumption-pattern brought about by such eventualities must be fully accommodated in the matter of substitution and *addition to the expenditure* in the average budget and the weighting diagram and consequently in price collection work. As the learned authors of the Report of the Expert Committee on Readjustment in the Delhi Consumer Price Index Numbers have very correctly stated, ". . . . Therefore the Committee is of the considered opinion that the criteria for determining equivalence of quality for particular commodities should *not be those of a Laissez-faire economy*, but those of a planned one. The rigorous constraints imposed by consideration of technical details of specifications, etc. of different commodities have to be tempered by a careful examination of the circumstances warranting the change. . . . The Committee, therefore, accepted the principle of forced changes as a guide for determining whether the prices in 1960 of any commodity are comparable with the base-year prices of that commodity, especially with reference to changes in their quality that might have taken place in the intervening years. . . ." (p. 51 *ibid*) (*emphasis added*). The weighty opinion expressed above is of all the more appropriate application in a situation (as detailed in the foregoing paras) where the quality descriptions and specifications in base-year pricing schedules manifestly suffer from profound vagueness, especially in the all-important groups of Food, Clothing and House-rent, notwithstanding unequivocal instructions of the Labour Bureau itself—Vide pp. 49-50 of the publication 'A Guide to Consumer Price Index Numbers, Labour Bureau, Ministry of Labour & Employment, Government of India. In this connection it will be quite relevant and appropriate to quote the ILO itself: ". . . if the consumer is left with no other choice but to take the more expensive article, there being no close substitute, the difference in price might well be counted as price-change and not as payment for higher quality, even if there is a utility differential. . . ." (Report of the

ILO on Computation of Consumer Price Indices (Special Problems—p. 91)

We, therefore, strongly urge upon the Review Committee that in the event of non-availability of a particular quality or variety due to its disappearance from the market, or in the event of a challenge from the workers that taking advantage of vagueness of specifications or quality-description in the base-year, the prices collected do not relate to a particular variety, quality or grade which is currently consumed or preferred by the workers, the appropriate authority must ensure that substitution is based on the actual consumption-preference of the workers in a particular period, irrespective of whether such substitution is likely to entail a modification in the weightage of the item, sub-group or group in the Index Series.

Permanent Screening Committee for Scrutiny of price-data :

In the light of the past experience and with a view to fill the serious and widening credibility gap in the accuracy of the Consumer Price Index Numbers, it has become imperative that a suitable non-official and permanent Committee, with adequate representation of workers' representatives thereon, be constituted at the level of every centre and on national level to screen or scrutinize the price-data collected by the investigators before they are forwarded to the Labour Bureau and before the Index Numbers are released for publication. Such screening Committees should also be taken into full confidence in respect of all technical detail, e.g. substitutions, imputations, splicing or adjustments for quality-change, etc. before they become operative.

Special problems of importance

House Rent. It has been fully accepted by the Government that in the past grave injustice was done to the workers by keeping the House-rent index constant over a period of couple of decades. The damage was only *partially* undone by introducing the system of periodic, (six monthly) House-rent surveys.

This has slightly improved matters but the index numbers based on the data collected during such surveys, has been consistently failing to reflect the rise in house-rent actually paid by the overwhelming majority of workers at every centre. The reason underlying this failure is primarily the unrealistic and unscientific approach to the issue. Serious errors inherent in the present approach of the Labour Bureau to the problem consist in:

- (1) Defective method of sampling and
- (2) Failure to treat house-rent as an inseparable part and parcel of the consumption-basket, requiring appraisal on equal footing with other groups therein in terms of quality, quantitative sufficiency, and pricing.

Sampling :

The Labour Bureau Survey is limited to a fixed sub-sample of families, since the survey covers only the *'dwellings occupied by the sampled family and not the "family"*. It covers the new entrants in these very *'dwellings'*, but being a fixed sample it *does not* cover the new houses to which this particular "family" might migrate, or any other, or new houses constructed in the intervening period which may have come under occupation by other workers. As has been amply described in an earlier part of this memorandum, the substantial increase in industrial work-force coupled with anywhere near commensurate increase in the provision of housing facilities by the employers (including the state itself) has led to proliferation of numerous colonies, *'busties'*, settlements in and around every big city catering to the housing-needs of the city-poor, comprising a high percentage of industrial or manual workers. The rents in these new colonies are naturally high as compared to the old ones. Even in the new houses constructed by the government or the local authorities the rents are very high in view of the increased value of the land and construction material and better and more modern layout or designing. Substantial increase in value of the land even in the old and traditional labour colonies, has naturally led to corresponding increase in the rent of tenements therein. To continue to stick to fixed Sub-samples of families ignoring these vital aspects of the house-rent problem is therefore, tenta-

mount to deliberately introducing artificiality in the Index numbers.

Pricing of House Rent: Failure to treat house rent as an inseparable part of the consumption-basket for appraisal and pricing on equal footing with its other components is another technical and statistical fallacy which characterises the computation of CPI index numbers. A mere glance at the house rent index number for various centres will show that it consistently shows the least rise compared to the index of all other groups. Statistics relating to prices of every type of construction material as well as of land show that prices have registered a steep rise ranging between 250-450 per cent. during the last 10 years. It is inconceivable that rents of buildings coming into existence during this period did not rise *at least* to a corresponding extent. Even in case of old houses in respect of which little rise in rent is being recorded in the 6-monthly surveys, the essential element of *deterioration in quality* due to age is consistently being ignored, thus giving the go-by to all scientific, statistical and technical concepts underlying the computation of Price Index. In this connection it would be worthwhile citing the authority of the ILO itself. "The age of the particular dwelling unit represents at least one parameter of the problem. Thus, for example, rentals charged for dwelling units of a given age this year should really be compared with rental charged a year ago for dwelling units of the same age at that time"—Report of the I.L.O. on Computation of Consumer Price Indices (special problems) p. 105. Obviously we have the sanction of the I.L.O. itself in support of our proposition *that the rentals for the newly constructed dwellings should also be taken into account* to ensure a faithfully accurate measurement of the rise in House-rent Index numbers. Just as new markets and new shops are to be included for the purpose of price-collection, so also new localities and new houses where workers are living in significant numbers must be taken into reckoning for the purpose of house-rent.

To use statistical or economic terminology, house-rent should be a *weighted* average of the rent at which both the old and new houses are rented out, which price represents what is called "the

equilibrium price for the spectrum of total demand of the entire working class and supply of houses in the year”.

Working out of pricing unit in respect of house-rent

Accepting the above approach to the problem of house-rent, it should not at all be difficult to work out a unit-price as in the case of any other item in the Index series to establish a comparison for houses of a similar size.

It is understood that the schedules of the six-monthly house-rent survey of the Labour Bureau provide information regarding the total floor-space, which is made inclusive of store and kitchen (apart from living rooms) but exclusive of bath room, latrine as well as verandah. With uniformly recorded identical coverage in respect of floor area since 1960, it is both possible and desirable to work out a unit price in terms of such area for the purpose of computation of the house-rent index. The expenditure on connected services like health, sanitation, water, etc. should also be averaged out and added to the group either as separate item or through imputation.

The area, for which the unit price should relate should be expressed in terms of 100 sq. ft. or 10 sq. yds. or sq. metres. and collection of ‘prices’, represented by the rent charged per unit of floor area, should proceed on this basis.

Rent free, selfowned/concessional—rated living accommodation

Our organisation is of the view that all the three types of accommodation mentioned above should not be taken into account in computing house rent index. So far as rent-free or concessional-rated accommodation is concerned the facility is available to only an insignificantly small number of workers, who are required to render special and extra services, and the accommodation provided to them constitutes no more than mere compensation for the extra or special duties performed by them e.g. Security staff, essential services personnel, etc. As regards self-owned houses besides the insignificant numerical factor, it has to be understood that the tenement or house is constructed in most such cases out of loans taken from Provident Fund

deposits, or housing-cooperative societies, or obtained on hire-purchase arrangement with local authority. If indebtedness including interest on loans are excluded from the family expenditure represented on the weighting diagram, there is no question of taking into consideration self-owned house for the purpose of compiling the index.

However, expenditure on repair, maintenance and upkeep and local or State taxes in such cases could be taken into account as separate items under the House-Rent group.

Expenditure on E.S.I.S. Contribution

Although we agree that due account must be taken of the expenditure incurred by a worker's family on this important item, but for various technical and statistical reasons we would suggest a modification in its method of pricing and inclusion in the weighting diagram. As at present the average contribution 'per employee' is included in the consumption basket, and the expenditure enjoys a heavy weightage in the sub-group 'Medical care' in the Miscellaneous group. The contribution made by the employee attracts different types of benefits, which are quite distinct and different in nature and purpose. Such benefits fall under two broad categories. (1) Cash benefits and administrative charges (2) medical benefits which include medicines and medical attendance. It would be more correct and consistent, scientifically and technically, if only that portion of the contribution is taken into account which represents category (2). We have the authority of ILO in support of the above proposition. Distinguishing between the two contents of Health Insurance, the ILO observes: "Health insurance may be included in so far as prepaid health care rates are the price of stipulated maximum quantities of medical services"—Report of the ILO on Computation of Consumer Price Indices (Special Problems) p. 112.

It is not difficult to find out that part of worker's contribution which was in the nature of a price for medicine and medical attendance. Worked out mathematically such contribution would be equal to:

Average monthly contribution per worker multiplied by proportion of medical benefits to total expenditure multiplied by proportion of worker's contribution to total receipts.

Since all the facts and figures required to work out the workers' contribution towards medical care and medical attendance are readily available with the ESIC scheme, pricing of ESIC contribution on the basis of the above formula can be undertaken month to month.

Controlled and open market prices

It is evident from whatever material has been made available to us that the method of price-collection all along followed by the price-collection machinery amounts to calculated deflation of the Price-Index, since only controlled prices of almost all the essential items of consumption are being taken into account, totally ignoring the factum of insufficiency of quantum available from ration or fair-price shops, and also that a majority of workers are forced to supplement the insufficient supplies available from such shops by making open-market purchases. The arbitrary and ill-conceived formula evolved by the so-called "Technical Sub-Committee" which gives sanction to ignore quantitative insufficiency upto 15% of the actual requirement, appears to have come in handy to the price-collection machinery to stick to the quantities and prices available and obtaining in ration or fair-price shops. Even areas under informal rationing are being treated on par with areas under statutory rationing. The AITUC emphatically protests against such flagrant misuse of the Index-compilation machinery for cheating the working-class of their rightful D.A. to the benefit of the exploiting class. In fact on this account alone the current as well as the 1971 series of Index number is entitled to be called utterly fraudulent. It is evident from Appendix 'A' attached hereto that the price collection machinery in respect almost of every centre is taking into account supplies of essential items like rice, wheat, milk, sugar, kerosene, Vanaspati, edible oils available from the ration or fair-price shops alone.

This condemnable device to depress the Index numbers openly violates all international norms and standards governing compilation of Index numbers. Clause 8 of the resolution of the Sixth International Conference of Labour Statisticians of ILO, adopted in August 1947, reads as follows:

- (a) "In a period of price-control or rationing, where illegal prices are charged openly to the groups to which the index applies, such prices should be taken into consideration."

We, consequently, ask the Review Committee to put an end to such fraudulent practices and methods, and also reject as unfair the formula devised by the so-called "Technical Sub-Committee" sanctioning overlooking of shortfall upto 15% of the total requirement of a commodity.

Element of wastage, under-weightment and adulteration

Apart from quantitative insufficiency of main items of consumption, particularly in the food group, which is a common feature distorting the average-budget and the weighting diagrams of different centres, the indisputable element of adulteration, wastage and under-weightment must be taken full note of and appropriate adjustments must be made to ensure at least the prescribed quantity of these items actually coming into the hands of the worker's family. For this purpose we would urge that an upward adjustment equivalent to 10% in the prices collected by the field staff should be made in favour of the worker.

Creation of more regions

We have no objection to creation of more regions, but do not favour creation of too many centres by artificial bifurcation of bigger or metropolitan cities, which for all purposes, constitute a region by themselves. Thus the division of what is called Greater Calcutta into Calcutta and Howrah, or of Greater Bombay into Bombay and Thana, etc., appears to us as lacking in merits, and otherwise also unsound and irrational.

Periodicity or frequency of Family Budget Surveys

The present interval of 10 years between two family Budget surveys in our opinion is too long. The interval should preferably be reduced to 5 years. Or, in the alternative, a suitable machinery with full representation of workers should be evolved to review the validity of the consumption-basket and the weighting diagram after every three years with a view to bring about modifications in the same to enable them to continue to reflect the actual consumption pattern of the worker.

Need for a new family Budget Survey

In our opinion not only the weighting diagram for 1960 Index series, but even that for the 1971 Index Series, has become out-dated and thoroughly disfigured by various deficiencies detailed in previous pages. There is no advantage in switching over to the 1971 series at this late juncture, when 7 years out of its total life of 10 years have already passed. The only way out is that steps should be taken right now to commence the next Survey so that the results thereof could be available well in time to construct an Index Series on 1980 base.

In the meantime urgent steps must be taken to rid the 1960 series some of its manifest errors and distortions so that it could be utilised for another three years without causing serious damage to the interests of the workers.

Some pertinent suggestions

From the criticism offered by us in this memorandum with regard to the basic approach, methodology and technique pursued in the Computation of the Consumer Price Index numbers so far, it is evident that serious efforts are needed to bring about certain important changes in the entire set-up responsible for discharging a function of such importance with considerable socio-economic import. In order to put the entire work on its rails we would like to make the following additional suggestions:

- (1) The existing set-up composed mainly of part-time investigators/price collectors, etc. must be altered

in favour of full-time well-qualified and well trained staff, with the added qualification of having living association with the life of working masses.

- (2) Standing high-power Committees both at Central as well as state level, with adequate representation of the workers thereon, should be set up to carry out patriodic (at least once in a quarter) review of the working of the Labour Bureau and of the appropriate machinery charged with the task of compilation of Consumer Price Index numbers in different States;
- (3) Examination of the desirability of entrusting the responsibility of price collection and of processing the data for computation of the Index to a single agency—either the Labour Department or the Statistical authority of the State concerned to replace the present arrangement wherein this work is entrusted to different agencies in different States.

