CHAPTER II

EVOLUTION OF DEARNESS ALLOWANCE SYSTEM IN INDIA
Chapter II
EVOLUTION OF DEARNESS ALLOWANCE SYSTEM IN INDIA

I. Historical Review:

The origin of the concept of dearness allowance can be traced to the discontent among employees during World War I on account of rapidly rising cost of living. In August 1917, dear-food allowance of 10% was granted to the workers in Bombay to create a sense of contentment amongst workers who were upset by the violent fluctuations of consumer prices. In Ahmedabad, the demand led to the historical fast of Mahatma Gandhi who succeeded in persuading the employers to recognise the fact that the real wages of workers should be protected when there is substantial rise in consumer prices. Dearness Allowance was called 'dear-food' allowance at some centres. The concept of dearness allowance was further popularised by the recommendation of the Rao Court of Enquiry constituted in 1929 to investigate into the question of dearness allowance for railway employees.

On account of the outbreak of the Second World War, consumer prices reached new heights and the conditions which suddenly deteriorated during the period from 1939 to 1945 completely dislocated the then prevalent relationship between prices and wages and made it incumbent to review the entire wage structure on account of
increased number of industrial disputes at various centres and in different industries. It was during World War II, in most of the important centres of the textile industry an attempt was made to link dearness allowance with the available cost of living index numbers and where such index numbers were not available for certain centres, the indices relating to the centres in the vicinity were used.

Dearness allowance was paid as distinct from the basic wages because it was assumed at that time that increased living costs were of a temporary nature. The said assumption has not proved correct and the system of dearness allowance has got to be continued so much so that it has become an important component of wage structure. Its necessity and desirability had been established and reiterated during 1940's. For example, the Vardachariar Commission (1944) observed:

"As long as the cost of living continued to be substantially higher, some system of dearness allowance over and above pay must continue in operation."1/

After the War and soon after Independence the Committee on Fair Wages observed:

"It is clearly necessary for this country to continue to pay dearness allowance to neutralise wholly or at least substantially the increase in the cost of living."2/

In the Government sector, the concept of Dearness Allowance proper was contemplated and put into practice during the Second World War. It started in 1940 when low paid Government employees were granted grain compensation allowance. Lack of uniformity among various provinces and continuing rise in prices compelled the Government in August 1942 to substitute Dearness Allowance on All-India basis for grain compensation allowance. Until July 1944 rates and coverage went on changing. Thereafter the Vardhacharier Commission recommended scale of Dearness Allowance payable at different levels of cost of living index to employees in different pay ranges upto Rs. 1,000 and with marginal adjustment between Rs. 1,000 and Rs. 1,100.

It was, however, in textiles that the elaborate system of payment of dearness allowance developed first soon after the outbreak of the Second World War. The payment of dearness allowance first started in Bombay Textile Industry where, on a demand raised by the Union, a Board of Conciliation recommended payment of dearness allowance to textile workers at 10 per cent of the average basic wage without any relation to cost of living, with effect from September 1939. In 1941, however, it was related to cost of living, by an award of the Industrial Court, neutralising the index to the extent of 76.5 per cent.
In Ahmedabad, the Textile Labour Association gave notice within 2 months of the beginning of War to compensate workers for a rise of 11 per cent in cost of living. They wanted workers to be compensated partly by food-grains and partly by cash. In the absence of agreement between the parties, Industrial Court awarded in 1940, the payment of dearness allowance in cash for compensating the workers to the extent of 66.66 per cent of the rise in cost of living since August 1939.

In Madras, mills started paying dearness allowance from 1940, when the cost of living index rose to 108. Each worker was paid four annas per point of rise over 100 points. It was, however, only some years later that a scheme of automatic adjustment of dearness allowance with the cost of living was evolved. In Coimbatore, on the other hand, a scheme was laid down from the beginning to relate dearness allowance with the cost of living index. When the index number moved between 101 and 150, the allowance was to be paid at the rate of 8 annas per every five points and thereafter half an anna in addition was fixed for every rise of 3 points subject to a maximum of Rs. 15/- per month when the index reached 178. Thereafter the General Industrial Tribunal appointed on 15th April 1947 fixed the rate of 3 annas per point per day. The second class mills were required to pay at the rate of 2½ annas per day per point rise.
In Kanpur, the dearness allowance was introduced with effect from 1st January 1940, when the working class cost of living had gone up to 114. The cost of living had continued to rise and the rates had to be revised from time to time. In April 1942, sliding scales of dear-food allowance were adopted and continued throughout the war years.

In Madhya Pradesh, in the year 1940, the Mahalanobis Committee recommended that workers getting Rs. 100/- and below be entitled to a dearness allowance at the rate of one pie per day per worker for one per cent rise in the three-monthly moving average of the cost of living index number for Nagpur on base August 139 = 100. In 1941, the Jayratnam Committee confirmed it and in January 1944, the dearness allowance a textile operative got was Rs. 27-8-0 when the cost of living for Nagpur stood at 287.

Different methods for payment of dearness allowance were evolved during the 1940's decade by the Jute, Engineering and Mining Industries in other parts of the country. In Jute Industry in Bengal instead of dearness allowance an allowance known as "amenity allowance" was paid from June 1941. At first, the rate of this allowance was four annas per month and was increased from time to time. The same was linked to attendance and in addition, the mills were issuing food-stuffs to the workers from the mills' retail shops.
In the Engineering Industry in Bengal on the basis of the Report of the Central Pay Commission, the workers got extra dearness allowance of Rs. 5/- for every 20 points rise in the cost of living. The dearness allowance for the lowest paid worker was fixed at Rs. 30/- per month in 1948.

In the Engineering Industry in Bihar, the scheme of dearness allowance which came into force prior to 1947 in the Tata Iron and Steel Plant and subsequently, in the Indian Steel and Wire Products Company, Tatanagar, was on a graduated rates of dearness allowance related to different pay groups, and a 10 per cent of the basic pay of their respective groups was added for arriving at the total amount of dear-food allowance payable under the scheme to the workers.

In Mining Industry, the rates of dearness allowance were fixed with effect from 12th May 1947, in the case of collieries in Bihar and Bengal and from 10th October 1947 in Madhya Pradesh. The rates were fixed on the basis of percentage of basic wages for different wage groups.

Thus, during the post-war period, the concept of dearness allowance has become a widely prevalent method of granting increase in wages. It was no longer confined to the factory workers alone. It had got extended not only to clerical, Sales Office and Technical Staff of various private sectors of industries, but also to

II. **Dearness Allowance Systems:**

There is, however, no uniform method of payment of dearness allowance applied in various industries, Governments and other organisations. Even in the same industry, there are region-wise differences and sometimes, unit-wise differences. Sometimes, different bases are adopted for the different groups of employees in the same industry and unit. The major differences are on the following counts – relationship with CLI, automatic adjustment or otherwise, Dearness Allowance payment of different groups of employees and neutralisation levels. Broadly speaking, the following methods are followed for the payment of dearness allowance in India.

**Flat Rate System Without Linkage to Cost-of-Living Index**

Under this system Dearness Allowance consists of a simple flat/per day of work. It is linked to attendance. Lowest paid employees secure a relatively much larger relief than higher paid ones. It ensures better attendance and it is a very simple method from administrative point of view. This system is in vogue in the Jute mills in West Bengal and some factories in the Chemical Industry. The origin of this system can be
traced from the recommendation of the Rao Court of Enquiry. Rao Committee recommended that simplicity and uniformity dictate a single rate for all. For example, in Bengal Jute Industry, dearness allowance in respect of all categories of workmen, both manual and clerical, was fixed at Rs. 32-8-0 per month inclusive of the value of food concessions to the extent of Rs. 8-10-9 per month up to November 1951 when it was increased by Rs. 5/- per month.3/ 

Graduated Scale of Dearness Allowance According to Income Slabs

As a result of recommendations of some of the adjudicators a system of graduated scale of dearness allowance according to income slabs has been evolved. Under this system the amount of dearness allowance increases with each slab of salary increase but the ratio of the allowance to the income goes on diminishing. To higher categories of workers lower compensation is paid. After its adoption by Central Pay Commission for Government employees, the system was also extended to Engineering workers in West Bengal by Awards of Tribunals in 1948 and 1950.

Under this system of payment of Dearness Allowance simple rates of dearness allowance are prescribed as percentage of basic pay parallel to different pay slabs. Rates of allowance are prescribed inversely in relation to pay. The system can be illustrated by the 3/ Para 18, First Pay Commission Report (1947).
following scheme adopted in the General Engineering Industry in West Bengal:

<table>
<thead>
<tr>
<th>Basic Pay Range</th>
<th>Range of D.A. rates (as percentage Basic Pay)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 100/-</td>
<td>70% to 135%</td>
</tr>
<tr>
<td>From Rs. 101 to 200/-</td>
<td>30% to 67½%</td>
</tr>
<tr>
<td>From Rs. 201 to 300/-</td>
<td>12½% to 33½%</td>
</tr>
<tr>
<td>Above Rs. 300/-</td>
<td>10% to 33½%</td>
</tr>
</tbody>
</table>

Besides the above industry, this system is in vogue in Cement Industry, the Chemical Industry, Tea Plantations in Assam and Coal Mines. The Labour Appellate Tribunal confirmed the said scheme but also directed that the dearness allowance should be raised by the prescribed flat amount if the All-India average consumer price index numbers (General base 1949 = 100) rose by 10 points and over. It also directed that similar adjustment should be made if there is a drop by 10 points but no reduction in the allowance should be made if the index falls below 102.

**Dearness Allowance Linked to Cost of Living Index**

In this system a rate is prescribed per point of index or group of points. A specific point in the consumer price index, above which the dearness allowance is payable is also fixed. The value per point of index per month is multiplied with the rise in the consumer price index. The resulting monthly allowance
is divided by the number of working days to arrive at the daily average amount of dearness allowance. By this method both the rise and fall in the index are taken into consideration. This method is in vogue in Cement, Chemical Products Industry and Cotton Textile Mills in greater Bombay, Ahmedabad and Madras States. In Cotton and Woollen Textile Mills of U.P. a different rate per point is fixed for different slabs of the cost of living index number. Various authorities including the Supreme Court have held that it is proper and desirable that dearness allowance should not remain fixed at a particular figure but it should be on a sliding scale because the whole purpose of dearness allowance is to neutralise a portion of the increase in the cost of living. It should provide for an increase in the cost of living and a decrease on a fall in the cost of living.

For example, in some industries, in the basic rate of 1.9 pies per point of index for any change in the index range between 105 and 325 is fixed. However, if index slabs vary after exceeding the 325 points, additional Dearness Allowance prescribed as percentage of total quantum of dearness allowance is paid as follows:

<table>
<thead>
<tr>
<th>Consumer Price Index Slabs</th>
<th>Rate of additional D.A. as percentage of quantum of basic D.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>For index between 325 and 335</td>
<td>5.0%</td>
</tr>
<tr>
<td>For index between 336 and 350</td>
<td>7.5%</td>
</tr>
</tbody>
</table>
Dearness Allowance Rates Related to Consumer Price Index Number and Pay Slabs

The percentage rates in this system are relatively higher on the lower wage groups than on the high wage groups. Automatic adjustments in the payment of dearness allowance is ensured by this scheme, although the proportion of neutralisation varies from group to group.\(^{1/}\) In a cigarette factory following rates are paid:

DEARNESS ALLOWANCE RATES RELATED TO CONSUMER PRICE INDEX AND PAY SLABS IN A CIGARETTE FACTORY

<table>
<thead>
<tr>
<th>Index Number (Jabalpur C.R.I.)</th>
<th>Minimum</th>
<th>On 1st 100 of basic wage</th>
<th>On 2nd 100 of basic wage</th>
<th>On remainder of basic wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>331 - 340</td>
<td>43-8-0</td>
<td>80%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>341 - 350</td>
<td>45-0-0</td>
<td>85%</td>
<td>42½%</td>
<td>21½%</td>
</tr>
<tr>
<td>351 - 360</td>
<td>46-8-0</td>
<td>90%</td>
<td>45%</td>
<td>22%</td>
</tr>
<tr>
<td>361 - 370</td>
<td>48-0-0</td>
<td>95%</td>
<td>47½%</td>
<td>23½%</td>
</tr>
<tr>
<td>371 - 380</td>
<td>49-8-0</td>
<td>100%</td>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>381 - 390</td>
<td>51-0-0</td>
<td>105%</td>
<td>52½%</td>
<td>26½%</td>
</tr>
<tr>
<td>391 - 400</td>
<td>52-8-0</td>
<td>110%</td>
<td>55%</td>
<td>27½%</td>
</tr>
<tr>
<td>401 - 410</td>
<td>54-0-0</td>
<td>5%</td>
<td>57½%</td>
<td>28½%</td>
</tr>
<tr>
<td>411 - 420</td>
<td>55-8-0</td>
<td>120%</td>
<td>60%</td>
<td>30%</td>
</tr>
</tbody>
</table>

For each points
fall below 331
points or rise
above 20 points,
subtract or add
at rates shown
under each column 1-8-0 5% 21/2% 11/2%

There is regional proportion basis in case of
some industries, e.g. Cement factories located in
Gujarat region pay to their workers dearness allowance
computed in the proportion of the 55% of the allowance
payable to the workers in the Ahmedabad Textile Industry.
In Cement and Chemical Industries the pattern of compu-
tation methods vary but in Coal Mines only one uniform
method is adopted for calculation of dearness allowance
for operatives. In Textile Industry centre-wise uniform-
ity is seen while in case of other industries computa-
tion methods varies among units even in the same centre
and region.

From the above discussion of the various systems
of dearness allowance in vogue, it can broadly be said
that there has been wide difference in the method and
quantum of dearness allowance paid to the workers in the
different centres. This has been the main reason for
the disparities in wages at different centres. The
flexible dearness wherever found has provided a suitable medium for adjusting dearness to the ups and downs of the cost of living; The system of dearness allowance based on cost of living index has worked well and, if Dearness Allowance has to stay as the method of wage adjustment, its wider adoption should be encouraged, because a rising cost of living if not neutralised can be a source of discontent.

III. Issues in Dearness Allowance Payment:

There is no significant disagreement on the necessity and desirability of paying dearness allowance, so long as the price stability is not attained and also that such payment has to be based on the changes in the cost of living of workers. There are a number of areas where the opinion sharply differ as between the employers and the Trade Unions, between Government and employees as also between one authority and the other dealing with the problem of dearness allowance. The major aspects which have proved controversial relate to the construction of index numbers and level of neutralisation. We shall briefly indicate here the general issues involved on these two aspects. Detailed discussion on each of them in the context of Ahmedabad C.T.I. will form the subject matter of the latter chapters.

(a) Cost of Living Index Numbers:

The monetary cost of buying goods and services
required by a family for maintenance of its standard of living during a specified period can be considered Cost of Living for the purpose of the index. The cost of living index numbers represent the average change over a time in the prices paid by the workers for a specified basket of goods and services. Even if no dearness allowance were paid, these Index Numbers are useful for measuring the changes in the levels of living of workers. The Royal Commission on Labour in India emphasized the utility of reliable cost of living indices and in the thirties, family budget enquiries were conducted in Madras, Bombay and Uttar Pradesh for the purposes of constructing cost of living indices. The Rao Court of Enquiry, however, observed that none of the cost of living index figures available in 1941 were entirely satisfactory. They recommended preparation of up-to-date cost of living index figures for urban and rural areas.

The compilation of the Index Numbers in India has by now a fairly long history. The Labour Bureau of the Government of India and the State Governments had been compiling and maintaining these Index Numbers for different centres. Besides, an All-India Index based on the average of all these centres was also compiled regularly by the Labour Bureau. While the consumer price indices for the centres under the Labour Bureau were based on the family budget enquiry conducted in
and had 1944 as the common base year, the original base year in respect of State Series varied from centre to centre.

The Labour Bureau, on the advice of the Technical Advisory Committee on Cost of Living Index appointed by the Government of India, conducted Family Budget Enquiries in 1957-58 in 50 centres through the National Sample Survey Directorate of the Government of India. Based on these Surveys, the new series of index numbers, for the 50 centres were constructed by the Labour Bureau with 1960 as base replacing the old series mentioned above.

The All-India average index with base 1949 has also been replaced by the new All-India Index with base 1960. The old series have, however, to be continued for some time so as to provide a smooth transition to new series. For purposes of deriving old series from the new series, the Labour Bureau also worked out the conversion table by dividing the average index for the year 1960 by 100. This, however, implied a "smuggling" of the defects of the old series into the new series which was resented by workers' organisations. Certain States such as Maharashtra, Gujarat, Rajasthan and the Union Territory of Delhi had to appoint Experts Committees to examine this aspect and certain co-relation factors were added up to the conversion factors suggested by
the Labour Bureau.

Consumer Price Index Numbers for industrial workers are widely used as Dearness Allowance escalators for most of the employees in our country including Government employees. In those areas in which dearness allowance is not linked with the Consumer Price Index, there is a great demand to link the same with the All-India Consumer Price Numbers for industrial workers. The same index is used by Banks.

There is, however, no unanimity of opinion about the reliability of these indices as truly representing changes in the cost of living. The reliability of cost of living index numbers as true indicators in the cost of living of the working class assumes a special significance once the payment of dearness allowance is based on them. The employees and the employers became much more concerned about them than what they would be if these numbers served only the academic purpose of assessing the change in level of living and no payments and receipts were based on it. The major issues on which the arguments for their unreliability can be based are: the base year, the representative character of the basket of consumer goods which is used for constituting the weighting diagram and the representativeness of the prices collected and used for the index.
**Base Year:**

The consumer price index has to have a base period with reference to which the changes in the price level during any subsequent period are measured. Special care is required to be taken for the selection of the base year. Base year should be a normal year when there are more or less stable price levels without any violent fluctuations. Moreover, reliable data should be available during the year chosen as base year. There should also be synchronization between the base year and the period of survey.

The consumer price index numbers compiled for various centres in India had different bases till some years back. Now most of them have been converted to 1960 base. The base years now adopted are still not the years of survey and thus the base year for prices and base year for weights are different. It may not, however, be possible to have a complete synchronization of the two on account of the time involved in conducting a survey and compiling results for use in the index.

**Weighting Diagram:**

A consumer price index is a weighted index of the prices of commodities consumed by the relevant group of consumers. The weights to the various commodities are assigned according to the relative importance of expenditure on these items in the family budget. Obviously
this could be found on the basis of a family living survey among the relevant consumers. If the survey has to be based on a sample, as it, generally, is, the representative character of the sample is the first step in compiling reliable index numbers. In the present case, that is, in the case of the index for industrial workers, care has to be taken to include only workers of the relevant categories but to get representation of the different strata - earning groups - in the sample. Once that is done, the next important step is to collect information on the quantity.

If the weights given to the various commodities and services are in variance with their actual relative importance in the family budget, the index will not truly reflect the change in cost of living. For, the prices of all commodities do not change in the same proportion and a given percentage change in the price of a major item will change the index more than a similar change of price in a minor item. This could obviously lead to a serious discordance when the index is being used for adjusting the earnings. Even though, one sees no reason as to why a weighting diagram based on a family budget survey should not truly reflect the actual consumption pattern, these have been occasions whose relative weights given to various items have been disputed by unions and employers.
What is, however, much more important is the fact that a weighting diagram may not hold true over a long period because the consumption pattern may undergo a change. The actual period in which such a change takes place to significantly alter the weights may be difficult to determine very precisely. In India family budget surveys started in 1920s and have since then been conducted once in every decade in most of the important industrial centres. After Independence, the first comprehensive series of these surveys was conducted by the Labour Bureau, during 1958-59, on which has been based the weighting diagram for the New Series of Index Numbers with 1960 as base. Another series of such survey which was conducted during 1965-66 are not yet available for all the centres. Soon, it might become necessary to revise the weighting diagram of the current series (1960 = 100) which is based on a 17 year old consumption pattern.

Price Collection:

Having decided the base year, the commodities to be included in the construction of index and the relative importance that is to be given to each of these commodities, the next task is that of recording the price changes. The consideration that have to weigh in this connection are that the markets from where the prices are collected should include the shops the workers patronise; the choice of controlled/open market
prices should be governed by the actual availability of goods to the workers from the two markets; and, imputation should be minimised, if not entirely avoided. Once these conditions are satisfied the measured change in prices is expected to reflect the change in prices that the workers in fact pay.

As at present, prices are collected by Price Collectors, who work under the direct supervision of State Assistant Labour Commissioners, or Labour Commissioners or Statistical authorities. A surprise check is also made at regular intervals by the Supervisors. The price data is collected from two reserve shops and two selected shops situated in the area with concentration of industrial workers and which are patronised by most of the industrial workers. However, sometimes, prices of certain items are assumed to be constant for a long period of time which is likely to give rise to discontent among workers.

(b) Level of Neutralization:

Since the dearness allowance came to be linked with the cost of living index the question as to what extent of price rise should be neutralized by way of the payment of dearness allowance has always been a matter of disputes and controversies. While on the one hand, maintainence of real wage at the base year level, in the absence of any other mechanism of wage-rise, full neutralization of the cost of living index is accepted
as desirable; in practice, issues of cost, price and inflation has been raised against full neutralization. Employers strongly protest against full compensation for the increase in the cost of living because, they argue the same would ruin the industry by compelling them to pay beyond their capacity to pay whereas employees' unions believe that anything less than full neutralization by way of dearness allowance fails to maintain the level of real wages of labour.

The First Central Pay Commission and the Committee on Fair Wages were of the opinion that the workers who live on marginal level in normal times should get the benefit of full neutralization and higher categories of workers should be given a graduated scale of dearness allowance. For lowest categories of workers the Central Wage Board for the Cement Industry advocated 100% neutralization. The Second Bank Award also endorsed the principles and directed cent per cent neutralization for subordinate staff and 75% for other workmen and linked it with All-India Working Class Consumer Price Index Number with base 1949 = 100. The Labour Appellate Tribunal in the dispute between Buckingham and Carnatic Mills and their Workmen in 1951 agreed with the view of the United Provinces Labour Enquiry Committee that complete neutralization would lead to a vicious circle namely, a rise in the total emoluments of industrial workers, which would form a
rise in prices which in turn would again force a rise in total emoluments of the industrial workers. The tribunal considered these principles to be sound and therefore, could not accept the claim for cent per cent neutralization of the rise in the cost of living. The Supreme Court of India also by and large endorsed such a view.

The National Commission on Labour recommended that 95 per cent neutralization should be granted against rise in cost of living to those drawing minimum wage in non-scheduled emoluments. The principles which seem to have thus evolved and have been found practicable as well, is to neutralise the cost of living to more or less full extent in the case of lowest paid employees and to a smaller extent in the case of higher paid one. The need and desirability to protect the wage of the lowest paid fully is obvious. Those at higher level, it is argued, can afford to live relatively well inspite of price rise and should share some of the burden of inflation, as a full neutralisation in case of all workers could lead to wage-push inflation and also reduce the scope of capital accumulation which is a dire necessity for an under-developed country.

IV. Effects of Dearness Allowance Payments:

While it is agreed that dearness allowance has protection of workers' real wages against price rise as
its objective the following are some of the apprehensions often expressed about the adverse effect of the Dearness Allowance system particularly of the increasing importance in the wage structure.

(a) Disincentive Effects of Dearness Allowance to Raise Productivity and Skills:

It is agreed that dearness allowance does not provide any incentive for efficiency as it has no relation with the workers' or the unit's or industry's productivity. It also acts as a deterrent for skill formation because the wage differentials between a skilled and unskilled employee grow narrower as a result of Dearness Allowance payments. It has, therefore, proved a disincentive and does not encourage workers to acquire more skill to increase their pay packet. Because of this character of dearness allowance, strong criticism has been levelled against the perpetuation of this system.

(b) Paying Capacity and Dearness Allowance's Relationship:

Because of increasing payment of dearness allowance the paying capacity of the industry gets gradually reduced and the industrialists develop a tendency to resort to more capital intensive methods of production consequently resulting in unemployment especially when the need of the day is creation of more employment opportunities. If the system of payment of dearness allowance is perpetuated in the existing form without
any drastic modifications, the paying capacity of
the industry would be severely impaired and the
tendency to replace labour by capital would be consi-
derably increased.

(c) Inflationary Potential of Dearness Allowance
Payment:

With the increase in the wage bill on account
of higher payment of dearness allowance, prices of
essential commodities of consumption by industrial
workers are bound to rise. Moreover, there is bound
to be a gradual decline in capital formation and irra-
tional rise in dearness allowance payment would distort
the entire economic scene and lead towards galloping
inflation having propensity to cause great harm to the
national economy.

To sum up, on account of higher wages in the
form of Dearness Allowance linked with Cost of Living
Index, there is greater strain on working capital funds
of the industry impairing not only capital formation
capabilities but also reducing avenues of employment.
Higher wages in the form of Dearness Allowance do not
generate/commensurate production due to narrowing down
of wage differentials leaving no incentive for skill
formation and productivity. On the contrary, it may
also lead to inflationary spiral creating greater
demand for wage-goods. We will have occasions to
examine these propositions empirically in the later
chapters.
V. Conclusion:

This discussion points toward some more basic issues not merely relating to dearness allowance, but also the whole question of wage determination and wage policy. These issues may be summarised as:

(i) the question of change in real wage levels;
(ii) increasing disfunctional character of a large part of wages in terms of its having no relation with skills and productivity;
(iii) distortion of wage-relativities and the impact of a high level and steep rise in wages on prices as well as on the financial health of and capital formation in the industry.

We propose to examine these issues, in some detail both logically and statistically with the help of the information relating to Ahmedabad Cotton Textile Industry in the following chapters. Before that we attempt in Chapter III a description of the historical evolution and system of payment of Dearness Allowance in Ahmedabad Cotton Textile Industry. The issues relating to cost of living index and level of neutralization as they arose and were tackled in this particular case have also been discussed.