CHAPTER III

DEARNESS ALLOWANCE IN
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This chapter continues the account of the historical evolution of the Dearness Allowance and the problems involved in this form of wage increases in the specific context of the Ahmedabad Cotton Textile Industry. We first trace here the history of Dearness Allowance in the Ahmedabad Industry suitably divided into convenient sub-periods and then critically examine the system currently in vogue particularly with reference to index numbers used and level of neutralisation.

I. Origin of Dearness Allowance:

The Second World War brought a sharp rise in prices of food stuffs and other articles consumed by the Working Class with the result that the Cost of Living Index Number which was 73 for the month of August 1939 (Base: August 1926 to July 1927 = 100 based on the Family Budget Survey of Working Class Families in Ahmedabad 1926) went up to 84 for the month of December 1939 - a rise of 11 points i.e. 15 per cent. The Textile Labour Association, representing the workers employed in Ahmedabad Mills asked the Ahmedabad Millowners' Association, representing its member mills to compensate fully the workers for the rise in cost.
of living consequent upon the Second World War. As there was no agreement, the two associations jointly submitted the dispute to the Industrial Court, Bombay for arbitration.

The Industrial Court, Bombay made its Award on the 26th April, 1940. It rejected the demand of the Labour Union for full neutralisation, as in the Court's opinion, the rise in cost of living could not be wholly ascribed to the Second World War and that part of the rise was due to other economic factors. The Court, therefore, gave the relief in form of a cash allowance of 10 per cent of the average wage (instead of 15 per cent as demanded by the Labour Union) and ordered that the cash allowance for subsequent months should be regulated according to the Index Number for the cost of living for each month reported in the Bombay Labour Gazette. This method of determining the quantum of dearness allowance was continued to be adopted till 1947 through the percentage of neutralisation was varied for certain years.

II. 1948 to 1955

The Textile Labour Association by revision application demanded revision of dearness allowance in the upward direction which in effect would neutralise the rise in the cost of living to the extent of 96 per cent instead of 76 per cent calculated on the average wage.
By Award dated 27th April 1948, the Industrial Court directed that the rise in the cost of living over pre-war level of 73 in the case of employee earning Rs. 28/0/6 for a month of 26 working days should be neutralised to the extent of 100 per cent and all employees earning Rs. 150/- or less a month should be paid at the flat rate. Taking the average index number of 219 for the year 1947 this employee should get a dearness allowance of Rs. 56/- for a month of 26 working days. On calculation, this rate came to 2.84 pies per day for rise of each point in the cost of living index number over the pre-war figure. With effect from 1st July, 1947, that is, the date on which the standardisation award came into operation, the workers earning upto Rs. 150/- were directed to be paid dearness allowance at this rate. Thus, in calculating this flat rate the Court had allowed neutralisation to the extent of 100 per cent for the rise in the cost of living over the August, 1939 level to the minimum wage earners on Rs. 28/-. 

The entire basis of neutralisation was thus changed from "average wage" to "minimum wage", though the monthly quantum was continued to be worked out on the basis of the Consumer Price Index Numbers published in the Bombay Labour Gazette. According to the Court:

"the principle of minimum wage having been accepted it is desirable to see that the benefits of such a wage once fixed are received by the worker
inspite of higher prices. This means that the worker shall be compensated for higher prices in order that he may be assured of a real minimum wage. Such compensation cannot neutralise higher cost of living fully i.e. by 100 per cent. It may have to be somewhat lower if the conditions of the industry or other factors are such that full compensation is not possible.

The Ahmedabad mills paid dearness allowance at this rate (i.e. 2.84 pies per day, per point of rise in CLI) until the end of October, 1949. In October, 1949, the Government of India in view of the recommendation of the Tariff Board, recommended a 4 per cent cut in ex-mill cloth prices. The Ahmedabad Millowners' Association therefore terminated the Award with effect from 1st January, 1950, the reason being that the textile industry in Ahmedabad was passing through a crisis and some of the mills had completely closed down and some were closed down partially. Another reason was that although the prices fixed by the Central Government on the recommendations of the Tariff Board were made applicable uniformly to all mills in the industry, at different centres, the scale of payment of dearness allowance was not uniform among centres. Even as compared to Bombay worker, the Ahmedabad Worker was being paid Rs. 15.4.0 per month more.

Before the Award was terminated the Textile
Labour Association, Ahmedabad gave a notice of change to the mills to continue to pay the dearness allowance as per the Award and as there was no settlement, a reference was made to the Industrial Court. The Court directed that as the cost of living had not appreciably gone down and there was no deterioration in the condition of the industry to warrant such a step there was no justification for a cut in the dearness allowance. Mills were therefore directed to continue to pay the dearness allowance at the same rate as was being paid under the previous Award.

III. 1956 to 1965

There was a growing feeling that the series of consumer price index compiled and published in the country were not very satisfactory and some of them had become obsolete. They were also on different base periods. The Second Five-Year Plan therefore recommended that steps should be taken to institute enquiries for the revision of the present series of cost of living indices at different centres. In pursuance of this recommendation, the Labour Bureau, Simla and the Central Statistical Organisation of the Government of India conducted fresh family living surveys among working class at 50 centres and middle class population at 45 centres with a view to construct new series of CPI numbers. These surveys were launched in 1958-59. Ahmedabad was also one of the centres
The Government of India began to publish consumer price index number for the City of Ahmedabad, having index number with base year $1960 = 100$. Publication of these series naturally raised the problem of arriving at a linking factor between the present series published by the State Government and the new series published by the Government of India. Government of India indicated 2.98 as the linking factor, which figure was arrived at by taking annual average of the monthly index numbers of the State Series for 1960 which then stood at 298.

There were several anomalies in the collection of prices in the State series, since some of the items included in such series had ceased to exist, whereas quotation for one major item, (house-rent) had been frozen for over 3 decades. The State Government were advised to stop the old series and instead publish the new converted index. The Government of India also thought that it would be unjust to the employees if the conversion would be allowed to take place without removing anomalies of the State Series. In view of this, the Government of Gujarat appointed an Expert Committee under the Chairmanship of Dr. M.B. Desai, to examine whether any readjustment was necessary in the existing series for Ahmedabad published by the State Government. They were also to consider how the new series for Ahmedabad should be linked with the existing...
series, so readjusted if found necessary. The Committee had to take into consideration the fact that the period of family budget enquiry on which the new series for Ahmedabad is based is different from the base period for the said new series.

The Expert Committee called for views of All-India Organisations of Employers and Workers and also heard their representatives. It made its report to the State Government on the 22nd January, 1964, recommending that:

(1) the existing State Series (based on Family Budget Survey, 1926) should be readjusted by an addition of 19 points in the overall Price Index and fix it at 317 instead of 298 (Average of 1960);

(2) the Labour Bureau's New Series be linked to the existing State Series by the linking factor of 3.17.

The State Government accepted the recommendations of the Expert Committee and published a revised Index Number for the month of November and December, 1963 by adjustment by addition of 19 points. It was decided to adopt the Labour Bureau Series as The State Series by use of the linking factor of 3.17 with effect from January 1964, and to discontinue publication of the Index Numbers in the State's 1926 Series after December 1963.
This decision of the Government created problems in the Ahmedabad Mills. Their liability of paying dearness allowance to their employees was incurred under an Award of the Industrial Court, which had fixed the rate of compensation at 2.84 pies per working day for rise of each point in the consumer Price Index Number in the 1926 State series over the datum figure 73. With the discontinuance of publication of the 1926 State Series of Consumer Price Index Numbers after December, 1963, the mills were not in a position to work out the dearness allowance for subsequent months as no Index Number was available in 1926 State Series. At the same time mills could not adopt the New Series for the purpose of working out dearness allowance as long as the dearness allowance Award was not suitably modified because, they argued, without such modification, the New Series automatically increased the quantum of dearness allowance, which resulted in neutralisation which was higher than 100% - quite contrary to the principle enunciated by the Industrial Court in its Award dated the 27th April, 1948.

The Ahmedabad Mills did not adopt the New State Series of Consumer Price Index Numbers for the purpose of payment of dearness allowance. They continued to pay dearness allowance on ad-hoc basis at the rate of Rs. 99-15-9 per month of 26 working days, such being the amount paid on the basis of the Index Number for

Since the Ahmedabad Millowners' Association did not change its decision against the adoption of the new series on the above grounds, the Government of Gujarat under Section 73 of the Bombay Industrial Relations Act referred the dispute for arbitration to the Industrial Court. The dispute was on the two points: (1) whether under Industrial Court's Award dated 2nd March, 1950 as well as the earlier Award dated 27-4-48 mills were bound to pay dearness allowance to the employees on the Consumer Price Index Numbers for working class for Ahmedabad published by the State Index Numbers for working class for Ahmedabad published by the State Government since February, 1964, by using the index numbers in the series for Ahmedabad compiled by the Labour Bureau and the linking factor of 3.17 adopted for linking that series to the State series with the old base, and (2) if not, whether the mills should pay dearness allowance for March, 1964 and subsequent months as per the said awards, by treating the index numbers for working class for Ahmedabad published by the State Government since February, 1964, as the index numbers in the State series compiled on the basis of the family budget survey made in 1926-27, and (3) if not, how the Dearness Allowance for March 1964 and onwards should be paid on the index numbers for Ahmedabad published by the State Government since February, 1964.
The Industrial Court by interim award increased the ad-hoc dearness allowance from Rs. 99-15-9 to Rs. 105-4-3 from March 1964. In its Final Award dated 26th October, 1964 the Court came to the conclusion that the mills are bound to pay dearness allowance to their employees on the consumer price index numbers of working class for Ahmedabad published by the State Government since February, 1964. The Court further observed that the new consumer price index is more comprehensive, more scientific and reflects the pattern of living of the working class at Ahmedabad, to a greater extent than the old series. The Court also considered that once there is a revised consumer price index and there are existing awards and agreements based on the old consumer price index, it is but desirable to link the new consumer price index to the old series in order to maintain continuity. In view of this, the Court directed that dearness allowance be paid for the month of March, 1964 and for subsequent months on the basis of the consumer price index numbers for working class for Ahmedabad published by the State Government since February, 1964 (by using the index number in the series for Ahmedabad compiled by the Labour Bureau, and the linking factor of 3.17 adopted for linking that series to the State series with the old base) at the rate of 2.84 pies per day for rise of each point in the cost of living index number over
The last point raised by the Ahmedabad Millowners' Association was as to what extent the Pre-War Cost of Living Index should be neutralised while awarding dearness allowance in view of the circumstances of the case and particularly in view of the capacity and need of the industry? In this connection, the Industrial Court observed that the basic minimum wage of Rs. 28/- plus ad-hoc Rs. 10-0-0 and Dearness Allowance of nearly Rs. 100/- which the textile workers were being paid was a mere bare subsistance wage which in no circumstances can be reduced irrespective of the capacity of the industry to pay. At the time the Industrial Court fixed Rs. 28/- as the minimum wage for the Ahmedabad Textile worker, it had fixed Rs. 30/- as the minimum wage for the Bombay textile worker, observing at that time that the pre-war cost of living at Ahmedabad was lower than that in Bombay. In the case of Bombay, neutralisation granted was 90% of the wage fixed for the minimum wage earner. The higher neutralisation was given in Ahmedabad to prevent reduction in the dearness allowance that was being paid. Two principles have been laid down by the Industrial Court so far as the Ahmedabad centre of the textile industry is concerned, viz. that the rise in the cost of living in respect of minimum wage of the lower paid worker should be neutralised to
the extent of 100% and the dearness allowance to which the workers are accustomed should not be reduced unless the cost of living has appreciably gone down. The submission of the Ahmedabad Millowners' Association amounted to a request for reconsideration of the principles laid down so far for this industry at this centre, and for justifying a departure from this, the principles applicable would be not only that apply when wages or Dearness Allowance are fixed for the first time but when an application is made to reduce the wages of Dearness Allowance.¹/

The Award of the Industrial Court as above came into force from March, 1964 but the directions were to be given effect to from 1st January, 1965 and the difference between what had become payable and what was paid under the Award (as) to be paid before the 30th April, 1965.

Being dissatisfied with the Award of the Industrial Court referred to above, the Ahmedabad Millowners' Association and the mills concerned filed an appeal in the Supreme Court. The following were the main objections of the employers against the new series. First, the size of the sample was inadequate and the method of investigation was inappropriate. The family living survey of 1958-59 has taken 722 working

¹/ Crown Alluminium Works v/s Their Workmen and Full Bench decision of the Industrial Court, Bombay.
class families, which is inadequate as compared to the earlier inquiry. Given the heterogeneous nature of the population, it cannot be accepted as adequately representative sample.

Second, the method adopted in the Labour Bureau Survey was only the interview method to the exclusion of accounting method. The information supplied was therefore likely to be comparatively defective and unreliable.

Third, there is a large extent of imputation involved in the new series: 89.825 per cent of the total expenditure was covered by priced items and remaining 10.175 per cent was covered by unpriced items imputed to articles, sub-group and group levels. For example, in items like biscuits, wheat (Products), coconut oil, gingli oil etc. imputation could have been avoided. Further, in a large number of items under the 'Miscellaneous' head, no attempt was made by the investigator to ascertain whether the item recorded was really used as a part of the regular expenditure or is in the nature of casual spending. The employers also objected to inclusion of certain items in one group rather than the other such as of pan-supari and tobacco in the Food Group instead of Miscellaneous Group. There were also objections raised with regard "Fruits and Vegetables" and the weightage given to
Potatoes. Another objectionable feature of the new series according to the employers, was collecting together of those items of the family budget which cannot find a justifiable place in a Group or a sub-group or a section as individual priced items and placing them under a general heading 'others'.

The Supreme Court, however, confirmed the Award of the Industrial Court and dismissed the Appeal of the Employers. The Court's findings on the three main points of dispute are as under:

(1) That the New Survey and the Index constructed as a result of it does not suffer from any serious infirmity with regard to inadequacy of the sample size, the Court observed that if the quality of investigation has improved and the method of working out the sample survey had made great progress, it would not be correct to say that the size of the sample was small as compared to the size of the sample taken in 1926-27. On the question regarding unscientific nature of interview method, the Court observed that the interview method itself has made great progress since 1926. The task of investigation was in no sense merely mechanical but it is a constructive task, the efficient discharge of which
required well trained investigator.

(2) The conclusion recorded by the Industrial Court that the method of linking the State Series of the Consumer Price Index Number based on the Family Budget Survey of 1926-27 with the New Series published by the Labour Bureau, Simla from 1961 based on Family Budget Survey of 1958-59 was not erroneous.

(3) To refute the conclusion of the Industrial Court that the additional burden would not be beyond the employers' capacity to pay, the appellants were required to prove that the prospects of their financial position in future justify a reduction in the wage which is being paid to the industrial employees during all these years. The Industrial Court has made a definite finding that it does not think that the financial condition of the industry has deteriorated so as to justify a departure from the principles in regard to dearness allowance hitherto laid down in respect of this industry at this centre. In the opinion of the Supreme Court this conclusion was well founded.
In the meantime, the Government of India had constituted the Central Wage Board for the Cotton Textile Industry in 1957 in pursuance of the recommendations contained in the Second Five Year Plan. The First Wage Board after careful study, recommended an increase at the average rate of Rs. 8/- from 1st January, 1960 per month per worker and a further flat increase of Rs. 2/- per month per worker from 1st January, 1962. The Board recommended that dearness allowance should be linked to the cost of living in all centres. The consolidation of dearness allowance with basic wage should take place at an index which will yield an amount equal to three-fourths of the average dearness allowance of the first six months of 1959. The remaining 25% of dearness allowance will continue as dearness allowance and to have a flexible character. The same shall rise and fall according to the future cost of living and the difference between the future index and the point at which the current index is merged shall be compensated according to existing method and at the existing scale.

The Government appointed the Second Central Wage Board for the Cotton Textile Industry in August 1, 1964 to consider the question of a further revision of the wage structure in the industry. The Board made the following recommendations:
The basic wage as it stood before the recommendation of the First Wage Board plus the increases granted by them plus the dearness allowance equal to three-fourths of the average dearness allowance of the first six months of 1959 shall be treated as the basic wage from 1969. Moreover, annual increment at the rate of 1% of the said revised basic wage on 1-1-69 as determined above was granted for a period of 10 years. However, by agreement between the Ahmedabad Millowners' Association and the Textile Labour Association the recommendations were implemented by granting increment at the rate of 1% for a period of five years with effect from 1-1-69.

The industry continued to pay the basic wage and Dearness Allowance as under the Wage Board and the Industrial Court Awards. Periods of wage increase granted under the Second Central Wage Board for the Cotton Textile Industry having, however, been over on 31st December, 1973, on a demand made by the Labour unions at Ahmedabad and Bombay for revision of basic wage and dearness allowance, Settlements were reached for evolving a new wage structure and for granting adequate increase in wages by merging a substantial part of the dearness allowance with the basic wages. An Agreement was reached to be effective from 1-1-74, which provided the following revisions in basic wage and dearness allowance.
New Revised Minimum Basic Wage of an employee at Index Number 205 (1960 = 100) was fixed at Rs. 282.85, worked out as under:

(i) Rs. 28.03 The minimum basic wage as per Standardisation Award in Ref. (IC) No. 18 of 1947.

(ii) Rs. 10.00 First Wage Board increase.

(iii) Rs. 221.90 Being the amount of dearness allowance payable at Index Number 205 as per the existing awards regarding payment of Dearness Allowance.

Total Rs. 259.93

(iv) an amount equal to the shortfall of (i) plus (ii) to make the total of Rs. 259.93 which constituted the minimum basic wage inclusive of First Wage Board increase.

(v) Another amount equivalent to 8% of the total of (i) to (iv). It was also provided that any increments earned by the employees as on 1-1-1974 will be added to the total of (i) to (iv) and the component of 8% will be computed on total thus arrived at.

The Agreement further provided for the payment of a variable dearness allowance instead of the Dearness Allowance payable so far in terms of the
existing awards or agreements. The variable Dearness Allowance for Consumer Price Index Numbers above 205 will be related in percentage to the New Revised Minimum Basic Wage of Rs. 280.72 (inclusive of item (i), (ii), (iii) and (v) care being taken to see that no employee would get less dearness allowance than what he would get under the existing system after merging Rs. 221.90 being dearness allowance payable at Index Number 205. The employees will be paid variable dearness allowance by working out a percentage per point of rise above Index Number 205 in the Consumer Price Index such percentage again to be multiplied by the New Revised Basic Wage of the employees concerned. The amount thus arrived at will be the variable dearness allowance payable to the employees for 26 working days for the month concerned. On exact calculation the rate of variable dearness allowance payable to the employees per point of rise of index over 205 comes to 0.433% for 26 working days.

The Fixation of basic wage, Dearness Allowance and the total emoluments under the new agreement is illustrated in the Table-III:1.

In addition to the increase granted as above under the agreement dated 27-6-74, the employees in the textile mills at Ahmedabad were also given ad-hoc rises of Rs. 4.16 with effect from 1-1-1974, Rs. 5.20
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Table III:1 contd.
from 1-1-75 and again Rs. 5.20 from 1-1-76. This amount of rise was granted to every permanent operative as well as to those of the badli operatives who had worked for not less than 240 days in the immediately preceding calendar year. This rise was given in the respective total emoluments worked out on the basis mentioned earlier.

The basic wages payable to time rated workers and time-scaled operatives were already revised on the lines as stipulated above by negotiations and evolution of basic wage structure of piece-rated operatives with fall back wages payable in terms of the settlement is pending negotiation.

IV. Consumer Price Index Numbers for Industrial Workers in Ahmedabad

Having sketched a brief history of the evolution of the Dearness Allowance system in the Ahmedabad Textile Industry, highlighting the major developments during 1940-1974, let us now discuss the two basic aspects of the scheme of dearness allowance: the realibility of the cost of living index numbers used for dearness Allowance payment, and the level of neutralisation of the index by payment of dearness allowance and the arguments involved in deciding the level.
Currently the Parness Allowance payment is based on the CPI (Base 1960 = 100) compiled by the Labour Bureau, which replaced the earlier series (1926-27 = 100) compiled and maintained by the State Government. The current series has its weighting diagram based on the Family Living Surveys conducted during 1958-59. The price collection work at Ahmedabad done by six price collectors under the supervision of the Assistant Labour Commissioner, Gujarat and the locality selected for price collection were Kalupur, Asarwa, Khokhra Mehdabad, Jamalpur, Gomtipur and Sarsapur. Prices of each item are generally collected every week from two selected shops from each of the said six localities.

The index for Ahmedabad has been calculated by Lespeyer's formula as a weighted average of price relatives, the weights being the proportion of expenditure as determined from the family living survey. Price relatives for the items for a current month are obtained by expressing the average monthly price of an item for the current month as percentage of the corresponding base price. The special features of the new series of index number for Ahmedabad was that 90 per cent of the total expenditure has been directly represented. The major criticism which have been voiced against this series are as follows:
(1) The size of the sample selected is inadequate and therefore the results of such a survey are likely to lack the representive character for deriving a weighting diagram. In 1926-27 when the estimated population of the City of Ahmedabad was 2,90,000 data in respect 985 budgets were collected, whereas in 1933-34, when the population was 4,50,000, the data collected was in respect 1,338 budgets, in 1944-45 when the population was 7,14,000, the number of budgets taken were 1868 and in the year 1958-59 when the estimated population of Ahmedabad was 11,00,000, the data in respect of only 722 budgets were collected. The point is valid even if one accepts the view, as given by the Supreme Court that the survey methods have improved over time, the absolute reduction in the size of the sample from around 0.34 per cent in 1926-27, 0.21 per cent in 1933-34, and 0.26 per cent in 1944-45 to a mere 0.066 per cent looks unwarranted particularly in view of the increasing heterogeneity of the population. Even if one accepts the view that the universe for this sample is the working class families and not population, this universe has been increasing rather than decreasing over time. The expert committee which went into the examination of this series agreed that the
sample size has been rather small. In view of this it is all the more surprising as to why in the survey conducted during 1971 for the construction of a new series (1971 = 100) the sample size was further reduced to 648 families.

(2) For Ahmedabad Index about 90 per cent of the total expenditure is covered by priced items and the remaining 10 per cent is covered by unpriced items imputed to articles, sub-group and group levels. If imputations are not properly carried out, imputational errors accumulate in the index from time to time and this ultimately makes the index to some extent unreal.

(3) While the survey was conducted by 1958-59 the index has 1960 as base. Obviously, thus the base year for weights is different from the base year for prices. Lapse of a year may be inevitable, as the Desai Committee observed, between conduct of a survey and the price collection. But a larger gap between the two periods, goes against the scientific accuracy as well as operational ethics.

**Level of Neutralisation:**

The next basic issue, which has attracted controversy quite often is that of the extent to which Dearness Allowance should neutralise the cost of living index. Workers were granted for the first time the following
(1) The relief in kind in the form of cost price grain shops, run on non-profit making basis by mills at convenient centres for workers and

(2) For the month of February cash relief to the extent of Rs. 3-8-0. Though there had been a rise of 15 per cent in the cost of living during the months between August and December, 1939, the Court did not give relief to the full extent but gave it to the extent of 66-2/3%, i.e., it gave rise to the extent of 10 per cent of the average wage of Rs. 35/- . The Court was not prepared to accept the principle that the employer owed any duty to the employees to make good to them to the full extent the rise in cost of living, unless it could be shown that the industry had benefitted to the corresponding extent by the very contingency which had occasioned the rise.

The award made by the Industrial Court on 26-4-40 continued to be in force till September 1941, when the Ahmedabad Millowners' Association and the Textile Labour Association entered into an agreement to raise the Dearness Allowance from the month of July 1941, by 45 per cent over the scale of Dearness Allowance fixed by the Court in previous Award, in view
of the improved condition of the industry; the increase thus granted being liable to revision. On a submission by the parties, the Industrial Court made a Supplementary Award dated 15th September, 1941, in the terms of the agreement. As a result of this Award, the neutralisation of rise in cost of living was increased from 66 2/3% to 96%. Again in 1945 it was brought down to 76% to the same extent as at Bombay. In 1948, the extent of neutralisation was increased to 100% for the lowest paid employees. The full neutralisation was granted to the minimum wage earner in view of the fact that the principle of minimum wage having been accepted it was desirable to see that the benefits of such a wage once fixed are received by the worker inspite of higher prices. For other workers the amount computed on this basis for the minimum wage-earner is paid; thus the extent of neutralisation declines as we move to the workers in higher earning brackets.

After examining in detail the historical evolution of the system of payment of dearness allowance in the Ahmedabad Textile Industry and related problems, we propose to examine in Chapter IV movements in Money and Real Earnings of Industrial Workers during the post-war period in general and trends in Money and Real wages in Ahmedabad Cotton Textile Industry in particular with special reference to the impact of dearness allowance on these trends.