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# THE INDEX FRAUD

*the story of manipulations,  
malpractices, arbitrary methods  
revealed in the computation  
of consumer price index numbers  
for working class*

**AITUC PUBLICATION**

# THE INDEX FRAUD

*Memoranda submitted to the  
Experts Committee on Consumer  
Price Index Numbers, Bombay  
by AITUC, INTUC and HMS*

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## *introduction*

The dearness allowance forms an important ingredient in the wage structure of our working class. The system of payment of dearness allowance came to be established after the protracted struggles the workers had to wage in order to protect their living standards from falling, particularly during the years of the second world war and the post-war years, when there was a steep and continuous rise in the price level.

The textile workers were in the forefront of this struggle and in centres like Bombay, they were able to win a sliding scale of D.A., linked with the cost of living index numbers. However, the neutralisation provided even in this link-up was not cent per cent and even now, large sectors of industry are yet to be covered by sliding scales of D.A. payments. Though the tendency in the more recent wage adjudications has been in favour of a variable D.A., and its link-up with the cost of living index numbers, both the Government and the employers refuse to make it applicable to all sectors of industries, trades and services. Hence, this has become the most pressing of all demands raised by the TU movement.

Just when the system of sliding scale of D.A. payments is getting increasingly applicable and the TU struggles are keyed to this demand, the workers have to meet with another hurdle. The officially-computed consumer price indices to which the D.A. is linked up has itself become unreliable. Particularly during the last one year, the price movements reflected by the official indices have been totally at variance with living experience.

The rise in the price level following the India-China border war and the declaration of the state of emergency was accentuated further by the imposition of high taxes in the February

- 1963 budget. The survey conducted even by bourgeois newspapers like the *Times of India* and the *Statesman* has established that the price rise during the past one year has been of the order of 15 to 40 per cent. But the official statistics remained static in most cases and in some centres, the cost of living index showed a decline.

The official all-India consumer price index which was 134 in September 1962 stood at 137 in September this year. The workers naturally protested against this obvious "fraud" in the compilation of the index.

The fraudulent index not only evoked agitation among the workers and trade unions in India but it became a subject of derisive comment by the foreign press. The London *Economist* (12 October 1963) commented:

"How could the cost of living index fall while everyone 'knew' that prices were rising, while even the official all-India index of wholesale food prices were rising? The answer was partly that the Bombay index was thirty years old, which meant that some of the weightings were inaccurate; but, more significantly, the prices used for the index were those at which food and textiles, for instance, should have been available but in fact were not. The housewife was quite correct; she knew more about the cost of living than the economists did."

The fallacy of bourgeois statistics was never exposed so thoroughly as this imaginary index. The gross manipulations in the statistics were not merely technical errors. It was a deliberate attempt to deprive the workers of their rightful compensation for the rise in prices earned by them in the sliding scales of D.A. It was clearly an attempt of the Government Labour Office which compiled the index and the big influential monopolists to steal from the workers' due wages and add to the ever-increasing profits of the employers.

The index controversy came to the forefront in the meeting of the Standing Committee of the Indian Labour Conference which met in Delhi on 5 August 1963. In this meeting, the TU representatives challenged the very basis of calculation of the consumer price index numbers.



The TU representatives demanded that price statistics being collected by official agencies should not be the so-called controlled prices as fixed by the Government but actual prices paid by the consumers in the market. The Government agreed to take the TU representatives into confidence by consulting them in computing the consumer price index numbers and also to appoint an Inquiry Committee to look into the index in Bombay City, where a one-day general strike of all industries was proclaimed for 20 August, on this very crucial question of rising prices, taxes, etc.

The slogan of "Bombay Bandh" was carried out unitedly by all workers in a magnificent manner which focused the attention of the entire nation on the question of rising prices and the utter unreliability of the index numbers.

The call of "Bombay Bandh" forced the Maharashtra Government to take some steps, though half-heartedly. The State Government called a tripartite meeting on 16 August but the subject of revision of the index raised by the AITUC delegation was ruled out of consideration by the presiding Labour Minister. Hence the AITUC delegation walked out of the meeting. However on 18 and 19 August, another tripartite meeting was convened for consultation on the question of revision of the index to which the present D.A. rates are linked. In this meeting, the Government agreed to appoint an Expert Committee to go into the question of the index and to report within two months.

The Bombay Bandh strike set the ball rolling. Soon the Gujarat also had to appoint a similar committee for the Ahmedabad centre. The campaign for the correction of the fraudulent index is gradually assuming an all-India character.

However, the suspicion among the working class about government statistics of the index is not entirely a new phenomenon. In the history of the TU movement, there have been several occasions when the reliability of the index numbers was challenged by the workers, when actually the prices used to rise and the index used to fall. And at times, the Government

had to admit the "inaccuracies" and correct the index, temporarily.

Soon after the declaration of the second world war, the Bombay Girni Kamgar Union made a demand for D.A. and when an offer was made by the millowners on the basis of the cost of living index, the union challenged the correctness of the index. The then Government of Bombay appointed a Board of Conciliation in January 1940 under the chairmanship of Justice Rangnekar to consider the demand of the textile workers. On the evidence submitted by the union which was, of course, challenged by the Government Labour Office and the millowners, the Board found that the Labour Office figures for the clothing group were nothing but the controlled rates from mill shops and not from the market. It also pointed out that necessary articles of clothing such as sarees and *khans* (a variety of blouse-piece) of the type required by the Bombay textile worker's family were not to be found in the mill shops. The Board also found inaccuracies in the index number of the expenditure in respect of travelling.

Taking increased percentages of these two items, the Board reconstructed the Labour Office cost of living group and general index number for January 1940 and awarded a dearness allowance, higher than the one offered on the basis of the official index.

The West Bengal Industrial Tribunal in an award in the dispute between employers of 89 jute mills and their workmen in 1948 made the following observations: "With great respect to the authors of different figures of cost of living index which we have come across, we find ourselves unable to accept these figures exactly at their face value, and we feel that some allowance must necessarily be made for inaccuracies which may have crept into these."

The working class resisted these malpractices, not because they could themselves study the statistical implications of the index, but because they found from their own experience that the index failed to reflect the exact price level. In Sholapur and Kanpur, there were strikes in the early post-war years. The



Sholapur index was quietly raised up after the one-month-old strike. Kanpur workers were also proved to be correct later on.

The First Report of the United Provinces Labour Enquiry Committee had to say the following:

“The number of articles taken into account in the Kanpur index is comparatively much less than those included in other indices, even if the miscellaneous group is not taken into account. Thus, the food group in Kanpur index completely omits green vegetables and masala, items such as chillies, tamarind, etc., and the clothing group omits coating, shirting, towels, etc. The *proforma* report on family budget inquiry in 1938 indicates that the expenditure on these items was not insignificant. The note on construction and scope of the index shows that the weight for vegetables and fruits has been allotted to potato, for tea, sweets and milk to ghee, for spices to salt, and for other apparel of man and woman to dhoti and saree respectively. We do not consider this method satisfactory. It is objectionable in principle to allot weights of one item to another, whose price trends are not more or less familiar. We are not persuaded that some items of these at least could not have been included separately because of the non-availability of price data and other details.” (Pp. 197-8)

The Labour Bureau under the Central Government prepared in 1953, the “Cost of Living Index—A Monograph” which elaborates the method of compiling the cost of living index. Later, the description of the index number was changed to “Consumer Price Index Number”, following ILO standards. The Labour Bureau published in 1958, a “Guide to Consumer Price Index Numbers” dealing with this question at some length. What is however surprising is that even the principles laid down in these two official studies are not strictly followed. This will be more than evident from the three memoranda submitted by the three central trade union organisations in our country, namely, the AITUC, the INTUC and HMS, to the Expert Committee which is now examining the faults in the Bombay index.

The faults in the index are not exclusive to the compilation in Bombay. It has an all-India character. Unions from various

centres are coming forward exposing the inaccuracies of the index numbers which means that the all-India consumer price index number also will have to be changed. The all-India index is the basis for variations in the D.A. scales of the seven million government employees, many state sector factories and trades.

The problem we have been discussing so far and which alone is the subject matter of the Bombay inquiry and the memoranda printed here, is the method of collecting prices, the identity and continuation of the same items of the index from month to month. As has been shown, the Government Labour Office bosses, in league with the big employers' organisations, have been collecting price data in a wrong manner and changing the items of the basic family budget and substituting them by others in such a way as to hide the rise in the market prices and the cost of living index number. Hence, the present index, to which our D. A. is linked is described by us as a "fraud".

It should be borne in mind that this problem is different from the problem of changes in the habits of the worker and the consequent changes in the basic family budget. The composition of the family budget having changed, the present cost of living index which is based on the old family budget is now basically out of date. The Bombay index was made on the family budget as was found in 1934. In this period of thirty years, people's habits of living have changed. Hence, a new survey of family budget throughout the country was overdue long ago. Such a survey has been undertaken by Government and a new series of budgets and a new series of consumer price indices have been prepared by Government. They wanted to introduce it in place of the old series. The TU movement has opposed the introduction of the new series, unless the "values" or market prices of the old series are corrected. Because if the old fraudulent index is just mechanically converted into the new series, the workers will lose heavily, their D.A. and real wages will go down and the employers will gain still more.

This is borne out by the experience of Delhi. There the old 1944 index series was replaced by the new 1960 series based on the new family budget survey. The result was that the work-

ers lost Rs. 2 in D.A. every month. This was due to the fact that the data of price collection of the 1944 series was fraudulent or faulty and hence when linked to 1960 survey which was also defective and paid in 1963, the result was a fall in D.A. and hence a wage-cut.

This is another aspect of the index problem. Before the Bombay Inquiry Committee, Government has put both the problems. But the trade unions want the first problem, that is, of the fraudulent collection of prices in the old index to be dealt with and corrected first before they go to the problem of the acceptance of the new series.

We are publishing the memoranda submitted to the Expert Committee on index by the Maharashtra State Committees of the AITUC, the INTUC and HMS. The Experts Committee was to submit an interim report within two months, that is, on 22 October 1963, on the first problem of the correction of the old index. But the Committee did not do so and asked for an extension of two months more. This has given rise to considerable misgiving among the workers.

It is of vital importance that the most essential points in the memoranda submitted by the three central TU organisations on the question of revision of the index have expressed similar views and made commonly agreed demands.

1. All the central organisations are convinced that the present series of index numbers are faulty.

2. They are also agreed that the Government Labour Office wrongly and deliberately froze the prices of clothing since 1952, thereby vitiating the rise in the index to the detriment of the workers and the benefit of the employers.

3. That with regard to house-rent, actual rise is not taken into consideration while computing the index.

4. Besides, in the name of changes in the consumption pattern, incorrect substitutions have been made with the result that the index fails to reflect real price rise. This was clearly against the very basic theory of index compilation as given by the ILO and accepted by the Government of India.

According to the INTUC, if the index is properly corrected for the major items, it would go up by about 50 points (on the 1934 base). The AITUC has concluded that the index might go up by 104 points, if all items are considered. Despite this difference in the estimates of the actual rise in points, all are agreed that the discrepancies are quite significant.

The INTUC memorandum, for instance, states: "We are surprised to find that all sorts of mistakes, errors, defects and wrong basis have been introduced in the present series of consumer price index numbers. It seems the Labour Department is encouraged to introduce faulty considerations in the compilation of index numbers because there was no sufficiently vocal agitation against the same and there was no independent Advisory Board to decide the various difficulties as and when they arose. An informal Advisory Board which was functioning in the past was dropped for reasons best known to the Government."

The AITUC and the HMS have criticised the index and the method of its compilation more or less in the same manner as the INTUC.

All the central TU organisations have demanded rectification of the present series before linking it up with the new series based on year 1960.

What is the effect of all this on the workers in the country in terms of actual rupees and naye paise?

According to the AITUC, the fraudulent compilation of the index is depriving the Bombay textile workers alone of Rs. 29.44 per month on the market rates of June 1963. If the rates were collected according to the principles and practice laid down by the Government of India memorandum itself, the official index of 446 will go up to 550. Thus the discrepancy is of the order of 23 per cent based on 89 per cent of the workers' family budget.

Thus by this fraudulent budget, the textile millowners in Bombay are paying to the 1,80,000 workers over *six crore* rupees less in D.A. By the fraudulent index, the millowners are making fraudulent profits of crores and robbing the workers, the con-



sumers and the country. All due to the collusion between the Government machinery responsible for index compilation and the big capitalist bosses.

This is the gain they make in textiles alone. The other industries also are reaping the same harvest of profits.

Since the Bombay index affects the weightage in the all-India index, the fraudulent element in the Bombay index as well as the imitation of the same practice in other centres, affects the all-India index.

So the fight for the correction of the Bombay index is of benefit to all the Government employees, to all those industries and trades who are governed by the all-India index.

Now the point arises, if all the organisations agree basically on the question of index numbers, why do they not come together in the struggle for rectifying this faulty index and forcing the employers to pay the correct higher D.A.? If they could achieve success in restoring the index on a correct basis, the workers will gain crores of rupees in the form of D.A. wherever it is linked with the index.

The four central TU organisations in the country have got enough strength in their hands to defeat the game of the employers and win back the rightful claim of D.A. of the workers which they had won through hard and protracted struggles.

If the leadership of the INTUC and HMS comes out of their anti-AITUC bias, the workers in India would be able to build a powerful united front on the question of D.A., index revision and bonus and stop the inroads into the earnings and standard of living of the workers. The refusal of the INTUC and HMS to build a common platform of struggle along with the AITUC results in reducing the collective bargaining strength of the working class, which ultimately helps the bourgeoisie to earn more profit and to keep the wage level of the workers down.

The "Bombay Bandh" strike demonstrated once again the keen desire of the working class to unite and fight against the onslaughts of the bourgeoisie. The AITUC, HMS, HMP and INTUC workers have shown by their united action on that day

(despite the INTUC leaders' opposition) that anti-working class measures could be defeated if the workers rally round common slogans and act unitedly.

The three memoranda published in this booklet clearly show the unity of purpose among the central TU organisations on certain vital demands facing the working class of our country.

If the unity of purpose is transformed into unity of action, it would be a historic achievement for the TU movement in our country.

The AITUC has always stood for TU unity on common demands of the working class. It would welcome any constructive step towards building a united front on any issue agitating the minds of the workers, however small it might be.

AITUC SECRETARIAT

30 November 1963



THE INDEX FRAUD

# 1. *AITUC* *memorandum*

*The following is the text of the Memorandum submitted to the Experts Committee on Consumer Price Index Numbers, Bombay on behalf of Maharashtra Rajya Committee of AITUC.*

HEREIN ARE SUBMITTED OUR NOTES ON ONE OF THE MOST VITAL subjects of the day, which has been entrusted by the Government of Maharashtra to the Expert Committee under your Chairmanship.

The task to which the Committee is to address itself is twofold.

1) to examine the present Consumer Price Index Series and to recommend readjustments;

2) to consider the problem of linking the existing series with the fresh series of Consumer Price Index Numbers for Bombay, which Government of Maharashtra proposes to introduce.

It has been assured that the Committee will submit an interim report on the question of readjustment of the existing series within two months from the date of its appointment. Lakhs of working people of Bombay are eagerly awaiting the Committee's report and its conclusions on the first term of reference by about the end of the third week of October. Delay in keeping to the time schedule will exacerbate the feelings of the working people and may cause disturbance in the industrial life of the City. The need to keep to the schedule need not be over-emphasized.

The Committee should avoid immediate involvement in the study of the second term of reference, the linking of fresh series with the existing one at this stage. Government has not yet made available the data regarding the fresh series to the trade unions who are not in a position to offer

their views to the Committee on the subject. Further, as it was emphasised by the representatives of all the trade union centres at the meeting of the trade union representatives convened by the Labour Minister, M. G. Mane in July last to acquaint them with the fresh series of Consumer Price Index Numbers, the problem of linking can be and should be considered only after the present series is rectified and is allowed to operate in its rectified form for a reasonable length of time. If the present series is grossly vitiated, as will be presently shown, the fresh series is bound to suffer, if it is linked to the current one in its unrectified form and before the rectified one properly stabilizes.

The compilation of the Consumer Price Index Series is a technical matter. However, it does not remain a matter of academic interest; it vitally bears on the life of millions of working people. And rectification is an urgent and immediate demand of lakhs of working men of Bombay.

#### PROTECTION OF REAL WAGE—A VITAL PROBLEM

The right to compensation for rise in prices of consumer goods and services, for depreciation of value of money, is only a monetary expression of the right to protection against erosion of even the meagre standard of living which has been achieved after long drawn and arduous struggles against the resistance and refusal to concede better wages to the worker. During the first world war the working men of Bombay, as others, did not have any protection whatsoever against the erosion of real wages resulting from rising prices. Reduced to utter penury and misery and enraged at the opulence of the industrialists and the traders at their expense, working men of Bombay in a series of strike waves battled with the employers and compelled them to pay a certain percentage of wages as additional wages which at that time went by the name of war bonus. Such compensation was thoroughly inadequate, but the working class was defrauded of this meagre gain with the first signs of downward trend in prices. The working class and its movement, forewarned by the bitter experience of the first world war raised the demand for dearness allowance to compensate the fall in real wages resulting from rise in prices of consumer goods, in the very first year of the second world war. The cotton textile workers of

Bombay fought a forty days long strike battle and were the first to win later sliding dearness allowance.

Dearness allowance was made payable month by month on the basis of the rise or fall in the Consumer Price Index above the 1939 level. The principle that a worker earning a bare minimum wage in the industry must be compensated to the fullest extent and his standard of living must not be allowed to deteriorate below the bare minimum level was accepted. However, in practice inspite of the bumper profits of the war and post-war years, even the lowest paid worker was not fully protected against rising prices. Dearness allowance at the rate of 1.9 pies per point per day was paid to all the categories of the workers in the cotton textile industry of Bombay. Since dearness allowance was paid at flat rate without regard to differentials, and the amount of dearness allowance became bigger and bigger, which came to be some multiple of the minimum wage, differentials were very much reduced. As a reaction to this impact on differentials a demand was raised especially by workmen of the engineering and allied industries that higher slabs should be paid, a larger amount as dearness allowance than that paid to the lowest paid worker in the industry or concern. The demand has been conceded in scores of engineering, chemical and other miscellaneous concerns where managements are required to respect skill differentials. In the fifties when the prices were still found to be rising inspite of the end of the war and the achievement of independence and the Consumer Price Index had gone up to above 300, agitation was launched in the cotton textile industry for enhancement of rate of dearness allowance so as to compensate fully the minimum wage earner in the industry. The demand was conceded by the Industrial Court and the rate of dearness allowance was enhanced by 10% above Consumer Price Index Number 350, i.e. from the old rate of 1.9 pies per point per day to 2.09 pies per point per day. A mistake of the order of about 4 points in the Consumer Price Index on the lower side means a loss of approximately Rs. 1.13 nP. to the each of the textile worker. A loss of more than Rs. 2 lakhs every month to the workers of the textile industry as a whole. Of the ten lakhs working people of the city as many as five lakhs are paid dearness allowance which is directly linked to the Consumer Price Index compiled and published every

month by the Office of Labour Commissioner. The rest though not directly linked to Consumer Price Index by some sliding dearness allowance system, their demand for rise in dearness allowance or basic wages has found justification in the rise in prices indicated by the Consumer Price Index Number.

#### ENORMITY AND URGENCY OF THE PROBLEM

In the opinion of almost all the trade union centres, the mistake in the existing Consumer Price Index Numbers is of the order of about 80 to 100 points. This means that the cotton textile workers who are paid dearness allowance on the same basis, suffer a loss of Rs. 20 to Rs. 25 in their dearness allowance every month. If the estimates are correct, then the textile workers alone are being defrauded of as large an amount as Rs. 40 to 50 lakhs every month and Rs. five to six crores every year. For the working people of the city as a whole the question of rectification of Consumer Price Index Number Series means an amount of not less than Rs. 10 crores annually at the present level of prices and rates of dearness allowance.

We have dwelt on this point at some length to bring out the enormity of problem as it affects the working people of Bombay. The employers will certainly be interested in resisting rectification with all the means at their disposal.

All the central trade union organisations including the INTUC have been agitating for past several years for rectification of the practices of the officials compiling Consumer Price Index Numbers and of the series itself. While the demand for a fresh series based on a new survey of family budgets was lately conceded, this very live demand for the correction of the old series had fallen on deaf ears all these days. The sudden and steep rise in prices, following the announcement of the 1963-64 budget, brought forth to the notice of the working people the defective mechanism of the Consumer Price Index Series which refused to move up. Since the pinch was beyond endurance it caused a very severe crisis in the life of the workers and began to move them into action. The demand for rectification of existing series became a demand of millions of working people. The Committee came into being on the eve of the great protest general strike of 20 August 1963. Million pairs of eyes are now watching the work of the Committee and eagerly awaiting for its conclusions. Working men



at other centres too, are deeply interested in the findings of this Experts Committee.

#### A CONFUSION OF TWO CONCEPTS

The present series of Consumer Price Index Numbers has come in for equally severe criticism on two counts, (1) that consumption pattern on which it is based, is nearly 30 years old and more than obsolete and (2) that the collection of actual retail prices from month to month is highly defective.

It must be conceded and it has been so conceded by the Government that criticism of the existing Consumer Price Index Number Series on the first count is thoroughly justified. "Normal change in consumption patterns are caused by the appearance of new commodities, changes in prices and changes in tastes. Forced changes also occur generally under Government regulations of control and rationing during emergency or during period of scarcity.." (Monograph, p. 48). "Standard of living of the working people in our country has been subjected to the influences of not one or two of these factors but all of them simultaneously and several times during the past 30 years, since the present Consumer Price Index Number Series was first compiled on the basis of a working class family budgets survey conducted in 1934." Ordinarily "it is usual to revise a series at intervals of 10-15 years in order to align it to the changed conditions. Some adjustments are also made during the life of a series to meet special situations and to keep the index on a realistic basis but such adjustments are made without introducing deviations from the basic concept of the index, namely, measurement of the effect of price changes." (Guide, p. 20).

If in ordinary times a series is required to be revised basically every 10 to 15 years, in such times as India has gone through during the past 30 years revision could justifiably have been undertaken every 5 to 10 years. But the 30 years old series still holds the field and when the specifications of various items of food, clothing, light and fuel and miscellaneous expenditure are read out in public meetings, they appear to be so obviously ridiculous even to a lay worker that such reading evokes a sacastic laughter. The present series badly needed a basic revision and it is a welcome feature that Government has at least moved in the matter.



The Government not only failed to underake a basic revision in time but also failed to make such adjustments as are necessary to meet special situations and keep the index on a realistic basis. Not that no changes were effected in the original specifications. Changes were effected in several items in arbitrary and most impermissible way.

However, the question of revision of series must be clearly distinguished from the question of correction of the present series itself. At present, both these concepts are being confused by the critics of the series and hence the need to separate the one from the other.

The question of changes in consumption pattern is a relevant subject matter for a fresh series but has no relevance so far as correction of the present series is concerned, except to the extent of examining the validity of changes made and of suggesting some adjusments to meet the special situation which may have developed during the long lapse of time.

Presently, we are concerned with the criticism of the present series on the second count. Our allegation is that the collection of actual retail prices from month to month is highly defective. In order to judge the validity and the weight of this criticism this Committee will have to accept as guide certain established principles of compilation of Consumer Price Index Series and must put to test in that light, the actual practice of the officials who compile the series from month to month.

#### PRINCIPLES OF COMPILATION OF CONSUMER PRICE INDEX SERIES

We set down below some of these principles which we consider basic, relevant and most important for the present purpose. We are relying on two very useful publications of Labour Bureau namely, (1) A monograph on Cost of Living Index Numbers in India (1953) and (2) A guide to Consumer Price Index Numbers (September 1960). These seem to be meant to guide Central as well as Sate officials in the work of compilation of Consumer Price Index Numbers. Such principles will be as follows:

- 1) "The Consumer Price Index Number purports to measure

the effect of price changes as experienced by a particular population group as a whole at a centre/area to which the index relates." (Guide p. 18)

2) "In compiling the index, *all factors, other than price changes are held constant*. For example, the list of items included in the index, their weights, the qualities period, the units of price collection, the types of shops selected for pricing etc. are held constant and the index is allowed to vary through pure price changes only." (Guide p. 19)

3) "This will be clear from the fact that the weights adopted in a consumer price index number series, the qualities of goods and services for which prices are collected, the type of shops from which prices are collected, etc., are all kept unchanged. This is necessary to enable measurement of the effect of pure price changes, unaffected by extraneous factors, such as, changes in expenditure pattern, tastes etc.," (Guide, p. 204).

4) "Since the object is to measure pure price changes it is necessary to keep the selected varieties (rather the quality represented by the selected varieties). shops and price collection days fixed as far as practicable. For example, if on one price collection day prices are collected for medium variety of Dhoti and on the next price collection day, prices are collected for a fine variety of Dhoti, a correct measure of price change will not be obtained by relating the two prices, because a quality change has occurred. Similarly, there are generally small differences in prices from one shop to another even for the same quality of a commodity or service because of such factors as profit-margin kept, location, degree of competition, popularity, etc. Naturally, if prices are collected from one shop on one price collection day and from another on the next price collection day, a spurious element (not connected with price-change) may enter into the comparison. The same reasoning applies to units of price collection, i.e. whether prices will be collected in terms of per seer, per dozen, per yard, etc. and also to price collection day. In case of some perishable commodities like fresh vegetables and fish, it is important to fix even the time of price collection, i.e. morning hours or noon hours or evening hours, etc. Thus, prices are to be collected for the same qualities of goods and services, for the same unit from the same shops, on the same days and even during the same hours during each pricing period. This forms

the core of price collection system in relation to consumer price index numbers.

"Quality specification and adjustments for changes: It will be appreciated that if there is any change in the above characteristics, suitable adjustments are needed in the price-date so that prices are strictly comparable from one pricing period to another and reflect pure price-changes only. *The most important changes to guard against is the change in quality*, because such a change can introduce a serious error in the index. A great deal attention is, therefore, devoted to avoid the effect of any change in quality of goods and services entering into the index. In order to ensure that prices conform to the fixed quality of each item of goods and services included in the index, the quality is specified through a detailed description which covers the name of variety (brand, local name, etc.), the grade (superior, medium or coarse) and other physical characteristics like colour size, texture, etc." (Guide, p. 12).

5) "The most important problem in collection of retail prices is to lay down specifications for pricing units so that the prices may always relate to the same qualities of goods and services. 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 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." (Monograph, p. 49).

6) "In keeping with the concept of consumer price index numbers as an indicator of the effect of price changes only, the price collection work is directed to obtaining the best estimate of pure price changes only, as experienced by the population concerned, over successive periods for each item included in the index" (Guide, p. 11).

7) "It is not desirable to obtain prices from manufacturers or mills particularly when such prices are calculated in an artificial manner, say according to control regulation or by adding a constant retailer's margin of profits. *The full impact of the retail market is not likely to be taken into account in the prices collected from factories or manufacturers.* Moreover, the collection of prices from such sources is against the cardinal principle

that prices actually paid by the consumers should be taken into account in the compilation of cost of living index numbers. So far as data on House Rent are concerned, these have to be collected from a sample of families by special field surveys. Since this method of collection of data is somewhat costly, it is enough if rental data is collected quarterly or even half yearly. *Arbitrary revision of the rent index, for example, according to the rise or fall allowed under the House Rent Control Regulations, should be avoided. The unrevised index is a weakness of a number of series of cost of living index numbers in this country.*" (Monograph, p. 51).

The foregoing enumeration will make abundantly clear the purely price-changes-measuring character of the Consumer Price Index Number Series and the great necessity of sticking to the same items, the same grades and the same varieties, the same shops and the same days and even the same timings, and also the need for insisting on collection of prices actually paid by the consumers. These have to be observed so that the basic character of the endeavour is not infringed.

Having established, what may be characterised as the rules, we may now examine some important exceptions.

#### EXCEPTIONS AND THE WAY TO MEET THEM

Apart from normal changes in consumption pattern caused by the appearance of new commodities, changes in prices and changes in tastes, there occur also forced changes in the consumption pattern under Government regulations of control and rationing during emergency or during periods of shortages. "While it is generally agreed that normal changes in consumption pattern cannot be taken into account in the cost of living index, which is designed to measure price-changes only, until the index is revised on the basis of a new weighting diagram conforming to the changed consumption pattern, there is an opinion that the forced changes in the consumption pattern should be taken into account in cost of living indices." (Monograph, p. 48).

If any item which is included for pricing, disappears altogether as a result of Government Regulation or such other reasons or is in short or rationed supply and substitutes are consumed by the relevant population group, some adjustments



may have to be made in weighting by way of imputation and or substitution.

*"If the particular variety mentioned in the specification is not available in the market it is permissible to collect prices for another variety in the same quality range and hence fulfilling the same specification. This procedure is known as "Substitution" and has frequently to be resorted to particularly in the case of clothing articles for which varieties available in the shops generally go on changing. In making substitutions, equivalence in quality of the two varieties (specified and substituted) is judged on the basis of physical characteristics like colour, texture, taste, durability etc. and not on the basis of price alone.*

*"This requires specially trained price collectors who have to make detailed investigations in consultation with experienced shop keepers and sometimes manufacturers for substitutions..." (Guide, p. 13).*

With regard to the *problem of substitution* care has to be taken on the following lines. "The problem of substitution of new qualities of goods and services in an index arises very often. *If the prescribed variety of an article goes out of the market it is permissible to price another variety of the same quality. However, if no variety of comparable quality is available, the latest available price of the prescribed quality may be repeated pending market enquiries. Such repetition should not, however, continue for long as otherwise an artificial stability is introduced in the index. If the prescribed quality is absent for a long time or permanently disappears from the market, a new quality popularly purchased by the population group to which the index relates has to be substituted in the index.* In keeping with the concept of cost of living index numbers as being indicators of price change only, the basic approach in substitutions should be that the index level ought not to be altered by the mere fact of substitution. Thus, if the price of a new quality is directly taken against the base price of the old, the effect of the quality change, as distinct from price change, enters into the index thus causing a spurious disturbance in the index. Similarly, even if the base price of the new quality is specially collected and the current price of the new quality is taken against this base price, the index level may be affected because of the difference in the current price levels of the old and new qualities as compared

to their respective prices during the base period. It is, therefore, desirable to introduce the new quality by the method of linking. In this method, the new quality is brought into the index only during the second month of its pricing so that only the effect of its price change, as compared to the previous month, is allowed to enter into the index. For adopting the link, it is necessary to have concurrent quotations for both old and new qualities for some period, which means that the price of the new quality has to be collected for a period when the old quality was also available in the market. It is often difficult to obtain such prices, particularly when the new quality has appeared in the market for the first time and in such a situation the latest available price of the old quality may be repeated and then a link established.

*"The question of open market or black-market prices is also an important one in connection with the computation of cost of living index numbers. In this respect the situation in this country has been varying from time to time. Where there is strict rationing, the consumers get a definite quantity of each rationed article at controlled rates and any additional quantity which they might desire to have can be obtained from the black-market only. In some centres, however, there is no strict rationing but the consumers can obtain a fixed quantity of articles at controlled rates from Government fair price shops and they are also free to buy part or whole of their requirement from the open market. The purchase from the two sources (ration shop or fair price shop and black-market or open-market) depends upon various factors, e.g., price differential, quality differences, sufficiency of quantum, etc. The first point to be determined is whether the population group to which the index relates is fairly patronising both the sources for buying its requirements. If it happens that mostly patronises one of the two sources, only then can prices from the other source be ignored. Otherwise, it becomes necessary to represent prices from the sources in order to keep the index realistic. The guiding principle in such situations is to determine the average price as being paid by the population group and for this it is necessary to know the ratio of purchase of the articles concerned from the two sources. Such ratios can be obtained by small-scale local enquiries by the sampling method. It may be necessary to organise such enquiries on*



a continuing basis so that any significant change in the ratios can be taken into account. Under certain circumstances, it is possible to derive the ratios with a fair degree of accuracy on the basis of the figures of ration quantum or actual off-take from ration shops or fair price shops and the difference between the quantity of consumption as obtained from the family budget enquiry and ration quantum or actual off-take. On the basis of the purchase ratios, a weighted average of the controlled price and open-market or black-market price of each article can be calculated and this average price should be represented in the index. *Thus, the basic approach to the problem should be not to alter the weights of individual items but to give fair and adequate representation to the black-market or open-market prices in the average prices adopted for the index.*" (Monograph. pp., 53-54).

We have given above the guiding rules, the main exceptions and the procedures to be adopted for making necessary adjustments in the cases mentioned under exceptions. Now we would request the Committee to examine the Annexure A and Annexure B attached to this submission.

Annexure A is a comparison of the original specifications for which prices in the base period (1934) were taken and the specifications which are given to the price collectors at present and for past several years. The last column in the annexure points out the changes made in the specifications. Annexure 'B' contains our brief remarks on the changes effected in the specifications and other irregularities.

The following gross violations of the authoritative rules and procedures enumerated above, stand out from the comparative table and notes thereon.

#### • VIOLATION OF PRINCIPLES

##### *Change of Grade:*

*A change in grade or quality of the specifications of the base period is absolutely impermissible and is contrary to the cardinal principle that all other factors except prices must be kept constant, unless a change is justified by exceptional circumstances or other unavoidable compulsions. Medium grades of Turdal, Gram, Salt, Chillies, Tamarind, Turmeric, Potatoes, Charcoal, Supari, have not disappeared and there is no case of nonavailability.*

The same is the case with sugar and mutton where degradation is more serious being from superior to ordinary. In the case of raw sugar not only is there a change from medium to ordinary but there is change in quality in as much as Kolhapur-Sangli raw sugar is acknowledged to be superior to Poona-Kopargaon raw sugar. It is not that Kolhapur-Sangli farmers have or at any stage had stopped the manufacture of raw sugar that the Kolhapur-Sangli raw sugar was at any time not available in Bombay shops. Therefore, the insertion of Poona-Kolhapur in the original specification "Kolhapur-Sangli" is only in line with the general trend of arbitrarily degrading the specifications as already pointed out in the case of several items above.

*Improper substitution:*

Dalda has been substituted for pure ghee. Substitution is permissible only in case of disappearance of a commodity. Pure Ghee has not disappeared from the market and its prices can be obtained regularly. The only justification that can be thought of is that the prices of pure Ghee being forbiddingly high the workers are consuming Ghee in less quantity. Changes in expenditure pattern, taste etc. are extraneous factors to the measurement of the effect of "pure price changes", which is the sole function of Consumer Price Index Number Series. This substitution is most uncalled for and constitutes a gross violation of the basic principle of compilation of Consumer Price Index Numbers.

The numerous examples cited above reveal that there has been for past several years a tendency among the State official responsible for compiling the Consumer Price Index Numbers to depart from the original specifications and to take prices of inferior qualities and lower grades than those specifically laid down in the original items table.

It is, therefore, absolutely necessary that the Committee recommend the complete restoration of original specifications of all the items in all their details and collection of prices of all items in accordance with the original specifications.

*Covert change of Grade:*

In the case of wheat the change of quality effected is not overt but covert. There was no explicit specification of quality in the

original but the specification 'Overseas' has been added later. There is a definite difference of quality between the average indigenous wheat consumed by workers and the quality of overseas wheat distributed by the Government. The difference in quality is clearly borne out by the comparison brought out in para 4 of annexure B, between prices of Jawar, Bajri and wheat per kg. as in 1934 and as at present. In view of the apparent change of quality, in order to avoid vitiation of index two courses may be followed. One possible course can be to discover the prices of overseas wheat as existing in the base period and substitute the same in place of the original price. But as here was no overseas wheat available at that time in Bombay market it is impossible to set that price quotation. *Therefore, the only other course open is to take not the present price quotations of overseas wheat but those of indigenous wheat of average quality.*

In the case of fish the original specifications indicate the quantity but not the quality or grade. While the price of the base period is shown as Rs. 1.11 nP, the price quoted now is only Rs. 2.25 nP. Market inquiries reveal that the price quotation taken is for inferior quality and small six size of *Pala* and *Bing* fish. *As the grade specified in most other items in the original table is medium, it stands to reason that the same grade should be adopted in the case of fish also.*

The cup of tea is a special case by itself. It appears, a cup of ready-made tea was considered to be a sufficiently unique specification for the price collector to identify the commodity. But the cup of tea has proved to be uniquely illusive. While the index number for ready-made tea has risen to 150 only, those of sugar, tea, milk and fuel severally have risen to above 400. This can only be explained by reference to the fact that the cup of ready-made tea served in hotels in working class areas has shrunk to smaller content and degraded to an inferior quality. It is not possible to establish the quantity and quality of the original ready-made cup of tea nor will it be possible to find out the 1934 price of ready-made cup of tea of present qualitative and quantitative specification. The relative weight of ready made cup of tea is considerable (5% of expenditure on food) and cannot be neglected. We, therefore, suggest in para 7 of our annexure B that *the weight of ready made tea should be spread over sugar, milk and tea in suitable proportion by imputation method.*

*Repetition of prices against principle:*

The grossest violation of principles committed by the officials responsible for computing Consumer Price Index Number Series is in respect of those items for which they have ceased taking prices for years together and kept the prices of these items artificially plugged or stationary at ten years old levels. Since this violation pertains to such important items as clothing and House Rent, it must have exerted a great drag on the Consumer Price Index Number and prevented it from rising in sympathy with the actual rise in prices.

One food item even has come in for such treatment at the hands of these officials. *They have ceased taking price of 'Patani' since 1960 February* for reasons known only to themselves. Patani is not a mean item in the weightage diagram, its weight being as much as 6% of total expenditure on food i.e., double that of wheat.

It is said that the department concerned ceased taking prices of certain items of clothing because the particular varieties have disappeared from the market. *The clothing items for which prices are not being taken are Dhoties (1952 September), Shirting (1953 April) and Sarees (1952 December). These three items cover among themselves 75% of the total expenditure on clothing of the typical working class budget.*

*Dubius Substitution:*

It cannot be alleged against the department that it does not know the procedure of substitution. They themselves have adopted it in case of coating and cloth for trousers and also in respect of *Khan*. As the varieties of original specifications were not available they have substituted other varieties in their place. We have serious doubts whether the substitutes in the case of coating, trousers and *Khans* are equivalents of the original specifications. It is not clear why in place of *bleached drill* coating, *drill dyed mineral Khaki* has been substituted. The proper substitution would be bleached drill of the same count of some other mill if it is available. While effecting the substitution the base period price has been increased. The index for coating is very much lower than the respective indices of other items of male clothing. In our opinion this substitution needs examina-



tion. There is need to verify base prices as well as current retail shop prices of the substituted variety of cloth for trousers.

In the case of *Khans*, the present index number is suspiciously low and there is reason to believe that the tampering with the variety specification by adding *Bhiwandi* and deleting *handloom* is mainly responsible for this.

The department having resorted to substitution in the cases mentioned above, it is not known why it did not do the same in respect of other three major items. *The Guide clearly says, as already quoted by us, that the procedure of substitution has frequently to be resorted to, particularly in the case of clothing articles, for which varieties available in shops generally go on changing. Despite this clear directive, Consumer Price Index Numbers Section of the Labour Department of the Government of Maharashtra failed to find equivalent substitutes to those clothing items, for more than a whole decade. Month after month and year after year they have repeated most callously the prices of 1952 and 1953 inspite of the fact that prices have risen sharply during this period. Even the wholesale index for cloth shows a rise of more than 25% during these years. The rise in actual retail prices must be still higher. The Consumer Price Index Number is, therefore, vitiated by a very large margin by this single item.*

#### *Need for House Rent Revision:*

With respect to House Rent the violation of principle is equally gross and obvious.

The Monograph had clearly pointed out as far back as 1953 that "the *unrevised* rent index is a weakness of a number of series of cost of living index number in this country." Unambiguous instructions have been given regarding the care that needs to be taken to see that increase in actual house rent is reflected in the index number. The Monograph says: "So far as data on house rent are concerned, these have to be collected from a sample of families by special field surveys. Since this method of collection of data is somewhat costly, it is enough if rental data are collected quarterly or even half yearly. Arbitrary revision of the rent index for example according to the rise or fall allowed

under the House Rent Control Regulations should be avoided.” (Monograph, p. 51).

Every word of these instructions has been violated by the Consumer Price Index Section of the Labour Department of the Government. The rent for 101.18 square ft. room area in 1934 was taken as Rs. 6.36nP. The rise in rent was recorded by Consumer Price Index Section after full 20 years in 1954 to be of the order of only 6.25%. Since then, for last 8 years, there has been no change in house rent so far as the Consumer Price Index Number Section is concerned.

Bombay workers live in tenements belonging to a variety of landlords. Some live in tenements belonging to the Government's Housing Board, some in tenements belonging to the Municipal Corporation. Some in tenements belonging to their own employers and the rest in the tenements belonging to other landlords. The rents of these tenements vary from Rs. 14 to Rs. 36. The tenement with lower rents can be secured only by paying *Pagree* of any size between once thousand to three thousand rupees. As is well known, the Rent Control Acts have not been able to keep the rents constant. All newly constructed tenements are available for high rents only. The city is expanding and new construction with rents many times higher than the old ones have come up. The workers are being found to live in these new tenements whether they afford the expenditure from their meagre wages or not. The proportion of workers living in newly constructed tenements is fairly high and growing day by day. Government had conducted a survey in 1958, of the working class tenements. It is possible that the 1958 survey has become obsolete to some extent and will not give the exact picture of the present realities.. However, it will be very much closer to reality than the position assumed in the house rent of 1934. *Current house rent should be calculated on the basis of 1958 data and the house rent so revised be immediately incorporated in the Consumer Price Index Number price table. At the same time, in view of the fact that five years have already elapsed since the last field survey was conducted, this Committee should recommend to the Government that a fresh, small, sample survey be soon carried out and necessary changes in rent figures be effected on the basis of the findings of such a survey.*

With regard to the other items which have been mentioned in



the Annexure B we need not add anything more to what has already been pointed out and suggested there.

We would like to draw the attention of the Committee to certain information regarding collection of retail price data, contained on page 23 of the Monograph. Following remarks will be found in paragraph 10 (3) of the Monograph.

*Violation of the Principle of collecting price actually charged to consumer:*

"For Bombay City price data for almost all the articles except clothing, four varieties of fish, brinjals and pumpkins are collected from 2 shops in each of the 45 localities which have been determined to be predominantly working class residential areas, on the basis of recent enquiry. The shops have been fixed with due regard to their location, date of establishment and average sales etc. At present, however, prices collected from the 12 localities only are used in the index, those from the remaining localities serving as a check on these quotations. *The prices of all clothing articles except Khans are obtained from the Textile Commissioner, while those of fish, brinjals and pumpkins are taken from the records maintained at the Crawford Market, Bombay by the Superintendent of Municipal Markets, Bombay City.*"

The source of price adopted for clothing articles and fish, brinjals and pumpkins is obviously highly objectionable and contrary to the basic principle of taking the actual prices charged to consumers. In spite of express instruction not to take prices from such indirect sources, if such objectionable practices are persisted in it only shows an extreme disregard of the department for the basic principle of compiling Consumer Price Index Numbers.

We have no information whether the same practice that was in existence in 1952, continues even to this date. The possibility is that it does and perhaps it has extended to some other items also. The matter needs to be strictly scrutinised by the Committee.

*We would go to the length of suggesting that observance of even the most fundamental and most important principles and procedures of compilation of Consumer Price Index Number*

*cannot be taken for granted in the case of this section of the Labour Department and it is, therefore, necessary that the Committee should go into the minutest of the whole process of compilation of Consumer Price Index Number from the collection of price data to the averaging out and calculating the final figures. If on the basis of the forgoing we say that the Department has betrayed a definite bias towards keeping down the Consumer Prices Index Number, it is completely justified.*

Consumer Price Index Number is a matter of vital concern to two opposing interests—the workers and the employers. With prices going up all the while the concern is all the more keen. In view of this and the past record of the Department concerned, the matters cannot be left to it alone. A body representative of both these interests needs to be appointed to supervise especially the collection of prices which provides the basic data for all further calculations. The prices collected by the officers concerned may be notified on a particular day and both parties may be asked to present objections if any, within a specified time every week. If any objections are taken a tripartite body may carry out on-the-spot investigations and rectify or confirm.

In conclusion we urge upon the Committee, not to take anything for granted, not to tolerate any reservation of information even to the last detail from the Department to go into every detail and see that the whole procedure and practice of compiling Consumer Price Index Number is thoroughly revised and improved to conform strictly to the basic principles of compilation of index numbers. Public confidence in the Consumer Price Index Number has been greatly undermined and nothing short of such a thorough readjustment can restore that confidence. *We urge upon the Committee to make recommendations to that end and also to work out on the corrected basis the Consumer Price Index Numbers for the months of post-budget period.* We would finally like to emphasise that the question as to what burden such a thorough readjustment will entail upon the employers is of no relevance whatsoever to this Committee. The terms of reference make no mention of it and such a consideration should not weigh on the Committee even to the slightest extent.

We hope the Committee will rise up to the expectations and will make such recommendations as will render the Consumer

Price Index Number Series for Bombay a reliable instrument for measurement of *pure price changes* affecting the working class population of Bombay.

We would gladly welcome an opportunity to give oral evidence before the Committee if the Committee so wishes.

The memorandum was signed by S. A. Dange, Datta Deshmukh, S. G. Patkar, Yeshwant Chavan, and G. V. Chitnis.

*Annexure A*

*TABLE SHOWING ORIGINAL SPECIFICATIONS, PRESENT SPECIFICATIONS AND THE CHANGE NOTICED IN BOTH THESE SPECIFICATIONS OF VARIOUS ARTICLES TAKEN FOR THE REALISATION OF WORKING CLASS COST OF LIVING INDEX, BOMBAY CITY*

<i>Sr. No.</i>	<i>Articles</i>	<i>Original specifications</i>	<i>Present specifications</i>	<i>Remarks regarding change</i>
1. Rice		Luchai	Luchai Govt.	Change over to Govt. supplied variety.
2. Wheat			O.S.	Change from indigenous to Overseas.
3. Jowari			Sholapur	—
4. Bajri			Kalpi	—
5. Patni			Bhadas	Stopped taking prices since 1960
6. Turdal		Kanpur-dry, medium	Kanpur, dry	Medium omitted.
7. Gram		Jambusar, medium	Jambusar	—do—
8. Raw Sugar (Gur)		Sangli or Kolhapur medium	Sangi-Kolhapur Poona or Kopargaon	Change both in quality and grade.
9. Sugar (refined)		Superior	Indian, small grain.	Change from superior to small grain.

<i>Sr. No.</i>	<i>Articles</i>	<i>Original specifications</i>	<i>Present specifications</i>	<i>Remarks regarding change</i>
10.	Tea	Brook Bond	Brook Bond (Rose) Brrok Bond (Plough)	Two lables introduced.
11.	Fish	Dry bumlows		Instead of retail shops, prices are taken from the market authorities.
12.	—do—	Fresh Bhing or Palah		—do—
13.	Fish	Fresh prawns		Instead of retail shops, prices are taken from the market authorities.
14.	—do—	Fresh bumlows		—do—
15.	Mutton	Goat, superior	Goat	Superior omitted.
16.	Milk	Ordinary	Ordinary	No change.
17.	Ghee (Vanaspati)	Pure Ghee	Dalda H.V.M.	Change from pure ghee to Dalda HVM
18.	Salt	Bombay (black medium	Bombay black	Medium omitted.
19.	Chillies	Red dry, Ghati, long, thin (medium)	Ghati long thin	'Red dry medium' omitted.
20.	Tamarind	Old (edible variety)	Old	'edible variety' omitted.



21. Turmeric	Rajapuri, medium	Rajapuri	'medium' omitted.
22. Potatoes	Medium (Rashi)		Original specification 'medium (Rashi)' omitted.
23. Onions	—do—	Ordinary	Ordinary substituted in place of medium (Rashi).
24. Brinjals	—do—	—do—	Instead of retail shops prices are taken from market authorities.
25. Pumpkins	White		
26. Coconut oil	Ordinary	Ordinary	Nil
27. Sweet Oil	—do—	—do—	Nil
28. Tea	Ready made, ordinary		
29. Charcoal	Medium (Madhyam)	Ordinary	Change from Medium (Madhyam) to ordinary.
30. Firewood	i) Mixture of inferior species ii) Babul or any other superior variety	Babul or any other superior variety	(What is the internal proportion?)
31. Kerosene (oil)	Ordinary	—do—	—do—
32. Matches	Wimco (60 sticks)	Wimco (50 sticks)	Change from '60 sticks' to '50 sticks' with commensurate change in basic price,

Sr. No.	Articles	Original specifications	Present specifications	Remarks regarding change
33.	Dhoties	Century Mills Dhoti Bld., 50" x 9/2 Yds. Divya-Moti 60s/80s Naxi Border, fine	Century Mills Bleached Dhoti, Nexi Border, Superfine (Divya Moti-50" x 9 yards)	Stopped taking prices from September 1952.
34.	Coating	Morarji Mills-Drill Coating bld., 6577 27/28, 40 yds. 14s/10s.	Morarji Goguldas Mills No. 6907, Drill Dyed, Mineral Khaki (Coarse) 27"/28" x 40 yards	Stopped taking prices from April 1953.
35.	Shirting	Split suci check 2952C, Phoenix Mills, 28" 24 yds. 18s/18s.		Stopped taking prices from April 1953.
36.	Cloth for Trousers	Morarji Mills 6586, 32/33" 40 yds. 14/14s.	India United Mills No. 1804, Bleached Drill (Coarse) 28"/29" x 40 yards	Substitution of another variety.
37.	Sarees	Kohinoor Mills, S. No. 52 1½ bld. Samaradni, 47" x 9 yds. 44s/60s. 56/48, fine	S. No. 52, 1½ bld. Saree Samaradni 47" x 9 yards. Fine (Kohinoor Mills).	Stopped taking prices from December 1952.
38.	Khans	Maheshwari, Handloom 30" x 30"	Bhiwandi, Maheshwari Border 30" x 30"	Specification changed by adding Bhiwandi and dropping handloom.

39. House Rent			
40. Barber	Shave, ordinary.		
41. Soap (Washing)	501 Tata	501 Tata	Nil.
42. Medicine	Mixture	Mixture	
43. Supari	White (Mangalore) Medium	White (Mangalore)	'Medium' omitted.
44. Bidis	Short variety, ordinary	Short variety	'ordinary' omitted.
45. Travelling	To & from native place	To & from native place	
46. Newspaper	a copy	Navashakti	

## *Annexure B*

### *NOTES ON CHANGES EFFECTED IN SPECIFICATIONS*

- 1) In the case of the following items specification medium grade is stated in the original but not so specified now:

(6) Turdal,	(21) Turmeric,
(7) Gram,	(22) Potatoes,
(18) Salt,	(29) Charcoal,
(19) Chillies,	(43) Supari.
(20) Tamarind,	

Average prices of all grades must be taken.

- 2) In the case of the following items there is degradation in specification:

(9) Sugar	...	superior to small grain.
(15) Mutton	...	superior is omitted.

- 3) In case of item (8) Raw sugar, there is both degradation and quality change i.e. from Kolhapur or Sangli Medium to Kolhapur-Sangli-Poona-Kopargaon ordinary.
- 4) In the case of item (3) Wheat, there is a change in quality. In 1934 there was no overseas wheat. How is the base price of the stated variety arrived at? For price index the present prices of native wheat must be taken. In 1934 Jowar, Bajra and Wheat prices are taken at 8.3 nP per kg. At present they are 59 nP, 64 nP and 41 nP respectively. What can explain the difference except a quality change?
- 5) A very strange substitution of Dalda is made for Pure Ghee. What is the reason for this? Vanaspati might be in use more now than previously. But that can be no consideration. Ghee has not disappeared from the market and its prices can be obtained quite regularly. This is a vicious and spurious change in the Consumers Price Index and quite unwarranted. Ghee must be restored for current compilation.

- 6) In the case of Fish, items 10, 11, 12, 13 and 14, the unit is number i.e. 'dozen' or 'each' without any specification in respect of grade. In all these varieties of fish, both dry and fresh, there are grades of big, medium and small. What is the grade stated in the base year? A Fresh *Pala* and *Bing* costing Rs. 1.11nP in 1934 must be quite a big one. But it is now stated to cost only Rs. 2.50 nP. At this price only a small one can be had. In the absence of any grade specification only the average prices of all the grades or prices of medium grade fish should be taken and not the lowest. As is seen in most other cases of items the grade specified must be medium.
- 7) In the case of ready made tea, item No. 28, there is both a unit quantity change as well as a quality change. A cup is the unit. What size of a cup? There is progressive diminution in the size of a cup. Then there are half, *pavana* ( $\frac{3}{4}$  cup), single and double cups. Which of them is taken for price quotation? The grade mentioned is ordinary. But there is degradation in the ordinary grade also. The relative price index in respect of sugar, tea, milk and fuel, the ingredients of ready tea, is 400 to 500 whereas the same in respect of ready-made tea is only 150. A conclusion is obvious that the unit has not remained constant and that there is deterioration in the grade too. When the size of the unit and quality are not constant, the price change reflection is bound to be spurious. We, therefore, suggest that the weight of ready made tea should be spread over sugar, milk and tea in suitable proportion.
- 8) In the case of Medicine, Item No. 42, the unit is a bottle of mixture. It is necessary to verify whether the quality and quantity have remained constant. If it is found that there is a variation in them, then the specification "bottle of mixture" should be suitably substituted by some patent medicine by obtaining base year prices and current prices or by a relative price study of the medicines in the prescription.
- 9) In respect of the following items there is simply a repetition of prices for number of years, with the result that there is no real price reflection and the Consumer Price Index is artificially stabilised.



Item (5) Patani : Latest quotation—1960 February. Prices of Patani are available and they should be incorporated.

Item (33) Dhoties : Price are pegged to September 1952. Specification—Century Mills Dhoti Bld.  $50'' \times 9\frac{1}{2}$  Yards? Divya Moti 60<sub>s</sub>/80<sub>s</sub> Nakshi Border Fine. Now this particular Divya Moti of Century Mills may not be available, but what is vital in specification is not the local name or the particular mill, but the quality, viz. Dhoti Bleached  $50'' \times 9\frac{1}{2}$  Yards 60/80 Nakshi Border. Dhoties of such specification or very near it of some other mill must be available in the market. That must be found out and its current price must be included in the index.

So in the case of Item No. 35, Shirting. A cloth of specification Split Suci Cheek 18<sub>s</sub>/18<sub>s</sub> if not of Phoenix Mills but of some other Mill must be there in the market and, therefore, the prices of shirting pegged to April 1963 must be unhooked and current price must be included in the index. Quality is the main feature in the specification and not the name, the mill or the shop.

Prices of Sarees, Item No. 37, are also pegged since December 1952. This is a very vicious practice. Even though Samaradni of Kohinoor Mills is not available, can it be said that  $1\frac{1}{2}$  bleached  $47''/9$  Yards and 44s/60s 56/49 fine saree of some other mill are not there in the market? So a proper substitution to keep the basic quality constant or very near constant must be made to remove the vitiating stabilising effect of the pegging. For more than a decade this pegging has continued.

In the case of item 34, Coating, the substitution of Dyed Mineral Khaki (Coarse) Drill for Bleached 14s/10s Drill of the same mill is done. So the Department could adopt the method of substitution. Why the same could not be done in the items mentioned earlier? There is a need to ascertain whether bleached drill of the same count of some other mill is available. If it is so, then proper substitution will be that one. If that is not possible then it is necessary to ascertain the base year price of the substituted quality.

In the case of Item 36, Cloth for Trousers, the Department has succeeded in substituting India United Mills' bleached drill (coarse)  $28''/29''$  40 Yards for  $32''/33''$  40 Yards 14s/14s of

Morarji Mills. It is welcome. There is need, however, to verify the current retail—shop price.

In the case of Item 38, Khans, there is need to verify whether a 30"×30" Maheshwari Handloom, is available at Rs. 1.20 nP. in a retail shop.

10) House rent is almost pegged to the base year. There is a negligible rise of 6% in 1954. Otherwise, this pegging has been having a most vicious stabilizing effect on the price index all these years. It is common knowledge that the Rent Control Acts have not been able to keep the rents constant. Government, Corporation and Housing Board have increased their rents. Municipal taxes are being added year after year. "Pagree system" has been in vogue since the controls and quite openly. The working class has to submit quite helplessly to this practice of paying extra and heavy levy. The city population is increasing by leaps and bounds. New construction has to follow to a certain extent. There is an overdue sample survey of rent payments. On the basis of such a study house rent has to be unpegged. The Government have data regarding house rent for the year 1958. The data were collected when a fresh family budget survey was carried out. The unit for house rent for 1934 base period in the current series is Rs. 6.36 nP for 101.18 *square ft. room area*, exclusive of common passage (Vathan), Lavatory, W.C. and bath place. So with all data at hand it would be quite possible to fix approximately the current house rent. That should be incorporated immediately. A fresh sample survey would be necessary to secure legitimate correction.

11) Item 45, Travelling—The only specification given is to and from native place. But means of transport, railway, steamer or bus are not mentioned. 27 km. is a unit and does not specify necessary the actual average distance an individual has to travel. This is quite clear. But there is need to ascertain the exact specification of the base year and to see whether that specification is being strictly adhered to.

12) The last item (No. 46) is newspapers. Base year specification is "Copy" and not Navashakti. Why Navashakti alone? The "copy" price must be average price of all the dailies.

## 2.

## INTUC memorandum

*The following is the text of the Memorandum submitted to the Experts Committee on Consumer Price Index Numbers, Bombay, on behalf of Maharashtra branch of INTUC:*

THE RASHTRIYA MILL MAZDOOR SANGH, WHICH IS AN AFFILIATE of INTUC has been agitating for the last few years regarding the defects in the compilation of the working class Consumer Price Index Numbers for the city of Bombay. Ultimately, the Rashtriya Mill Mazdoor Sangh sent a letter to the Commissioner of Labour, Government of Maharashtra, Bombay, dated 24 June 1963, a copy which is enclosed herewith for ready reference.\* The Government of Maharashtra thereafter by its Notification No. CIN-1163/Lab-1 dated 22 August 1963 appointed this Committee with specific Terms of Reference, after two three conferences between the various parties.

The INTUC has to submit the following on these Terms of Reference along with the background thereon:

1. A large majority of workers, including textile industry workers are following the Bombay mill industry's scale of dearness allowance or they are following a scale which is linked up with Bombay mill industry's scale. The Bombay mill industry's scale of dearness allowance is linked up with the present series of Consumer Price Index for Working Class in the city of Bombay. Even as early as 1940, Justice Rangnekar's Board of Conciliation which was set up to settle the first dispute of dearness allowance for the textile mill industry workers in Bombay came to the conclusion that this series has been defective and corrected the same on the prices prevailing at the end of 1939 and beginning of 1960. Thereafter, the Millowners' Association, unilaterally fixed

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\*As the letter was on the same lines it is not reproduced here.

for Bombay its own scale of D.A. But from 1 January 1947 the Bombay textile workers started getting the new scale of D.A. which was linked up with the Consumer Price Index Number for the city of Bombay, as a result of Industrial Court Award many other industries are following this scale or a certain fixed percentage of this scale.

2. The Government of India conducted a Family Budget Enquiry in 1958-59 and has started publishing Consumer Price Index Numbers for about 40 different centres and proposes to publish the new series for the city of Bombay in a short time by adding the city of Bombay to the existing about 40 centres. The 1958-59 Family Budget Report is not yet published nor the method of price collection for the new series is known. This question, i.e. the question of collecting prices for the present series has become acute because recently the defects got aggravated by a further rise in items of expenditure taken for the Consumer Price Index Number for the city of Bombay on the one hand and because of Government proposing to publish the new series, ultimately with a view to drop the present series based on the old Family Budget Report of 1931-32. It is, therefore, feared that if the new series is linked up with present defective Consumer Price Index Number, workers will stand to lose permanently against their present temporary loss due to defective Consumer Price Index Number. Therefore INTUC took up a stand both at the Tripartite Committee at Delhi as well as with the Maharashtra State Government that it would not agree to discontinue the present series and linking it up with the new series unless and until the present series is corrected first from all its defects and is continued for a period of at least 12 months after correcting the same, when it could be properly linked up with the new series. This too after the new series is also corrected by further adjusting the linking factor for certain inherent defects in the compilation of the new series.

3. Though in preamble to the Terms of Reference of the Government Resolution dated 22 August 1962, it is said that the present series of Consumer Price Index Numbers of Bombay does not reflect the existing pattern of consumption, it may be noted that the INTUC or the Rashtriya Mill Mazdoor Sangh had ever complained about any voluntary change whether due to the change in the real wage or increase in the family or due to the



change in the habits etc. should be taken into consideration for correcting the present series of Index numbers. We believe such voluntary changes could be considered and taken into consideration in the new Family Budget Enquiry and new series. It is not the function of the Index number series because if you begin to tamper with the present series for this consideration then there will be no end to it. Moreover it would be unscientific. Therefore we are sticking to the basket theory and any attempt to introduce a change in the actual consumption pattern will vitiate the whole series. We feel that the Government's reference in the present preamble to the Resolution must be due to the representation made by other parties and not by INTUC. We therefore submit that any voluntary change in the existing consumption pattern should not be taken into consideration for correcting the present series of Consumer Price Index numbers.

4. We are not at present agitating for all the defects in the old series specially in the change in the consumption pattern in all respects but are restricting ourselves only to the defects arising out of the faulty and inadequate price collection and sometimes that too on a wrong basis except in the case of medicine where there is compulsory change in the consumption pattern due to the introduction of the Employees' State Insurance Scheme. We are restricting ourselves as far as wrong, inadequate and faulty price collection on major 5 items, i.e. cloth, rent, ghee, transport to and from native place and medicine apart from the change in the consumption of medicine item due to ESI Scheme.

5. We are surprised to find that all sorts of mistakes, errors, defects and wrong basis have been introduced in the present series of Consumer Price Index Numbers. It seems the Labour Department is encouraged to introduce faulty considerations in the compilation of Index Numbers because there was no sufficiently vocal agitation against the same and there was no independent Advisory Board to decide the various difficulties as and when they arose. An informal Advisory Board which was functioning in the past was dropped for reasons best known to the Government.

6. If we look at the present series of Consumer Price Index Number for the city of Bombay, it will be found that 3 items under the heading "clothing", namely, the quotations for dhoties, sarees and shirting are repeated for more than 10 years. The



quotation for dhoties and sarees is repeated from September 1952 and the quotation for shirting is repeated from April 1953. We are surprised to find the carelessness of the Labour Department in repeating these prices for such a long period. In this connection the Rashtriya Mill Mazdoor Sangh conducted an enquiry a few years back and submitted a list of certain popular varieties which were largely consumed by working class under all these items of clothing viz. dhoties, sarees and shirting, which will stand the test of interpolation, namely that the item chosen must be a popular variety used by the working class, they should be available for a reasonable long foreseeable future for collection of prices and these were available in the past for collection of prices for change-over of varieties. According to us all these tests were satisfied because the list was submitted after proper and careful scrutiny and enquiry. Not only this but even the Millowners' Association also had submitted a number of varieties which would also satisfy the above conditions. But the Labour Department of the Government of Bombay did not use any of these materials sent by the parties and wanted us to submit a fresh list of other varieties which we naturally had to refuse because we have had no such additional varieties found in our enquiry. The Sangh had itself gone deeply into it and given such varieties which could satisfy all the above tests. Having given all such varieties there were no other varieties available to be submitted, unless a further enquiry not likely to be fruitful was conducted and the Sangh was not sure whether it would lead to any useful result due to the attitude taken by the Labour Department. These 3 items within themselves form 74% of the clothing expenditure, 6% of the total expenditure of the enquiry period and about 7% of the items collected. It is also well known that the prices of clothing have further gone up during the last 10 years which will also be seen from Index numbers of other 2 varieties namely coating and cloth for trousers which have also substantially gone up during this period. It is further well known that dhoties and sarees have gone up much more than coating and cloth for trousers. Even if you take up the wholesale price Index for these items of dhoties and sarees and shirting, it will be found that these items have gone up much more than what they are shown for purposes of compilation of Index numbers.

7. *RENT*: Next item of the defective, faulty and wrong price collection is the item of rent. It is well known that in the last post war period, rents have gone up not only of the old tenaments but also the new tenaments are charged at a much higher rate than the old tenaments of similar dimensions. The rent of the old tenaments have also gone up substantially. First due to the official increase allowed under the Rent Act which is curiously enough only partially reflected in the present series. The present series show that the official increase is 6% though the official increase allowed is to the tune of 18% over the last so many years. But even the latest official increase including the increase allowed from April 1963, is not reflected in the new series. Apart from the official increase, the working class has to pay even higher rent than officially allowed under various pretexts such as additional amenities provided, though in actual practice the additional amenities are only repairs carried out for which an official receipt is also given to the tenants in many cases. These increases may not be strictly according to law. But workers have to consent to this increase because of acute shortage of accommodation in Bombay. Moreover, the new houses both private and of the Maharashtra Housing Board for the same plinth area charged many times more than the old rent and a large number of such tenaments have been built with much higher rent. The weightage of such tenaments and reduction in the number of old houses due to demolishing, collapse of the old houses is not reflected in the rent index. The Sangh had represented to the Government of Bombay that a six monthly enquiry of the rents paid be conducted by the Labour Department and this price should be taken into consideration for the rent index still the next enquiry after 6 months. We had realised that the price collection of rent cannot be done weekly as in other items of expenditure and therefore 6 monthly enquiry was suggested. Even then the Labour Department did nothing in this respect. We therefore submit that a rapid survey of the rent collected should be made for incorporating the data as a result of this survey in the Consumer Price Index Number and thereafter instructions should be given that the survey of rent should be made every 6 months. It is not such a difficult enquiry as is likely to be made out, because all the chawls and tenaments of the working class area are listed in the Municipal records, a

spot sample survey would be made after first getting actual rents collected from the Municipal records and finding out the area as of the various rents paid and the noddle point for the area may be arrived at and the rents actually paid should be obtained for such tenaments and should be taken for price collection. The corresponding rents for such areas for 1933-34 is also available because these rents have also been collected by the Rent Enquiry Committee in 1938-39 for various types of tenaments. It may also be noted that the rents were practically steady in the period 1933 to 1939.

8. *GHEE*: We are surprised that ghee has been substituted by Vanaspathi for no valid reason. Ghee prices have always been available and even if the working class has changed its consumption pattern and changed over to Vanaspathi instead of ghee that cannot be taken for the compilation of Consumer Price Index Number till the new series is compiled. Only on the ground that the people have changed their habits, you cannot pick and choose items and change them for the compilation of Consumer Price Index number as this would certainly vitiate the whole compilation of Index numbers. This substitution in place of pure ghee has been going on from December 1951 for no valid reason. We therefore submit that the price of ghee must be collected—that being the original item of expenditure in the 1932-33 enquiry and taken in the present series of Consumer Price Index Numbers.

9. *TRAVEL TO & FROM NATIBE PLACE*: Next item of expenditure which is on the wrong basis, defective and faulty is the item of travel to and from native place. For price collection on this item, the item of railway fare for 26 kilometers is taken. Even assuming that the railway fare is a proper item, the unit taken is wrong being 26 kilometers as it is well known that the native place of workers is more than 50 miles for which a higher rate exists. But fundamentally the item taken is wrong in principle and the type of travel selected is also found that 50% labour come from Ratnagiri district, 10% from the two districts of Konkan i.e. Thana and Colaba and mostly from Colaba district. 30% from Satara and other districts of Ghat and only 10% from up countries such as U.P., Bihar and a few from Andhra. It is well known that even today Ratnagiri district and Colaba district are not directly connected by railway. It is also well known that

in the period of Enquiry these workers used to go to their native places mostly by Steamer and some time by bus. The Colaba district workers also used to go by steamer from the Bombay harbour to Dharmathar and Rewas and thereafter proceed by bus to their respective places. The Satara district workers substantially used to travel by bus and the rest by railway. The up-country workers were travelling substantially by railway to the nearest station and from there to their respective native places by bus. Under these circumstances, to take railway fare as a unit for price collection is fundamentally wrong. Either we must take the fare of that type of transport which is used by a large majority of workers which means steamer fare, but if that is not to be done, you should at least sub-divide and put it on the basis of 50% by steamer, 30% by bus and only 20% by railway. By taking all the above mentioned factors into consideration in this 50% steamer fare, we have reduced 10% as an allowance due to a few workers going by bus occasionally and some permanently. We have also taken 30% by bus by taking this 10% plus 20% out of the 30% from Ghat and 10% from up-country workers who travel mostly by train and very little by bus. If our estimate is wrong, it will be on the lower side and we have reserved a balance of 20% for railway. It will be further observed that the steamer fare between 1932 and 1934 and now has gone up by about 10 times and bus fare has gone up by at least 3.2 times because the normal bus rate apart from the lower rate during slack period was 3 pies per mile is now 5 nP which comes to 9.6 pies per mile. The weightage on this item in the Consumer Price Index Number for the city of Bombay is 27 among the items of total weightage for which the prices are collected which is 14% of the total expenditure. In the total index of 100 this item of travel to and from native place for which the price is collected is 3.69 which is nearly 3.7. But prices for the items to the total of only 89% of the total expenditure are collected. This item is 4.16% in this 89% items. It will thus be seen that this item is a substantial item and not like the one of ghee which may be of a slightly less importance, though the rise in price in ghee is much higher than Vanaspati.

10. *MEDICINE*: The next item is of medicine where the price collection is not only wrong and defective but also on wrong basis. In the first instance, the price collection unit chosen



as a bottle of mixture, the price for which is obviously wrong. A bottle of mixture used to cost 50 nP i.e. 8 annas in the Enquiry period of 1932-33 as well as basic period of 1933-34. In the present compilation the cost shown is 75 nP in the latest months. Nobody can get today this mixture for 75 nP. Doctors lowest official charge is Rs. 1.25 nP and the average will be much more. Leaving aside this factor, there is another factor which is to be taken into consideration. Before the introduction of the Employees State Insurance Scheme, the item of medicine was a very small item in the Enquiry period or the basic period of 1933-34 because most of the workers used to take advantage of free Municipal and Government dispensaries and hospitals and other Philanthropic dispensaries and mill dispensaries, many of which used to supply even bottles. Only a few workers very occasionally used to take advantage of the private doctors and therefore expenditure on this item was very small. Because of the introduction of the ESI Scheme, the workers have compulsorily to contribute to the medical benefits under the ESI Scheme and they are not allowed to take advantage of the free dispensaries either Municipal or Government or private and mill dispensaries. Workers are contributing roughly on an average more than Rs. 4 per month per insured person and Rs. 6 per family and all the industrial workers in the city of Bombay are covered under the Employees State Insurance Scheme and contribution to this Scheme is compulsory. On the other hand the employers were contributing only  $1\frac{1}{4}\%$  i.e. roughly Rs. 2 per worker. It is only recently they are contributing practically equal to workers' contribution. Even that contribution is practically half of the full contribution of the employers provided under the provisions of the Act. But the Government has still not enforced the full contribution on the employers for reasons best known to them in spite of the strong recommendation of the Study Group. Therefore, it would be natural to presume that all the workers' contribution goes towards the medical relief and the employers contribution must be taken to go to the sickness cash benefit. But even assuming a part of the workers contribution goes for cash benefits, it will be for this Expert Committee to decide how much of the contribution of the workers should be allocated under Medical relief and how much under sickness cash benefit. Under the above circumstances, it must be presumed that the



workers contribution substantially must be deemed to go towards medical benefit. It is now for this Expert Committee to decide how much of this contribution out of Rs. 4 per insured person and Rs. 6 per family per month must be allocated towards medical benefit. The total cost per insured person for medical benefits is assessed at about Rs. 3 including hospitalisation charges borne by the ESI authorities. Therefore as against expenditure of annas 3 and 1 pie per family, the workers contribution should be deemed to be at the rate of Rs. 4.50 nP per family, the price index will be at least 2250 as against the Index of this item which is shown as only 150. It is for this Committee to allocate proper share out of the workers contribution towards medical expenditure for the worker and his family. Even looking from another point of view, the cash benefit works out to be roughly Rs. 2 per month per insured person. If we divide this equally between the employer and the worker, the workers' contribution towards cash benefit will be of the order of Rs. 1 per month and employers contribution towards cash benefit will similarly be Rs. 1 per month. The balance of Rs. 3 per insured person i.e. Rs. 4.5 per family must be deemed to go for medical relief. The excess of employers contribution obviously goes to swell the funds of the Corporation which are not still utilised. It may be argued that this is a change in the pattern of consumption. But it should be remembered that this change is not a voluntary change and has been brought about by statute. In the war time whatever change was introduced due to rationing in internal distribution of cereals was taken into consideration by finding out the actual proportion of different cereals being found out on the basis of actual off-take of various cereals every month. We are also therefore following the same method and logic for the purpose of finding the Index for medicine. It may also be remembered that we are not introducing the additional item of sickness cash benefit introduced by statute for the purpose of compilation of Index number as we feel that this additional item should be taken care of in the new series, though this change in the pattern of consumption is brought about by statute.

11. Even if we take the Index properly corrected for the major items mentioned above, we feel the present Index will go up by about 50 points. If all other small items are taken such as occasional wrong pricing and freezing of prices by repeating the

prices of items such as Patni, bomblu, tamarind etc. the index may go up by further few points though these small items may not have very great substantial influence on the index number. But if the Index number is to be as scientifically correct as possible these small errors must also be avoided. The tendency to introduce small avoidable errors on a number of items may ultimately result in a substantial error in the final index number and that must be checked.

12. We are not elaborating on other minor items of defective price collection such as Patni which is being repeated from February 1960, Bomblu from October 1962 and tamarind from February 1963.

13. As regards the Second Term of Reference regarding the linking of the present series with the new series, we have to submit as follows:—

(a) The Family Budget Enquiry for the purpose of new series was conducted in the year 1958-59 and the base period for the new series is proposed to be the year 1960. It may be noted that the base period is different from the enquiry period. Normally the Family Budget Enquiry is conducted in the normal, steady times i.e. in a period where wages, employment and the conditions of industry are steady over a long period and people had adjusted their life to a steady economic life prevailing at that time. In such circumstances if the base period for the Consumer Price Index Number is slightly different from the Family Budget Enquiry period, neither the Index nor the series is affected. However, if times are not steady and normal and the base period is different, the people are continuously adjusting their lives to the new changing conditions such as in real wages going down, unemployment going up, availability or otherwise of certain articles etc. Under these circumstances, at least one precaution will always have to be taken, which will partially rectify the error in the Consumer Price Index Series by base period being different from the enquiry period. The Family Budget enquiry should not be undertaken in unsteady and abnormal times. The results of such enquiry do not reflect the permanent and steady consumption pattern. But even if such an enquiry is undertaken the precaution of enquiry period and base period being identical must be taken.

(b) In the proposed series, we understand that the enquiry

period was 1958-59 and the base period is 1960. Obviously the Index is likely to be slightly different than the correct index, however small the correction may be. We would therefore submit that while deciding the linking factor a small ad-hoc correction factor should be ascertained for this discrepancy and then the linking factor between the old and the new series for the purpose of dearness allowance be established. While deciding the linking factor of the new and the present series, average of at least 12 continuous months of corrected present series and 12 months of new series should be taken and the ratio between the two should be multiplied by the above small correction factor for the new series due to enquiry period not being identical with the base period. Only then a proper linking factor will be established.

14. In addition to the above statement, We would like to be orally heard for clarifying certain issues raised in this memorandum and any other points which may be raised by the Committee. We should therefore be highly obliged if you can give us some time as early as possible for oral evidence before the Committee.

15. We are enclosing herewith 4 copies of our Memorandum as requested by the Secretary of the Committee. It is regretted that due to the Secretary's letter of 4th September 1963 which reached our head office on 6th September not being immediately forwarded, our submission has been a little delayed for which we may be excused.

The Memorandum was signed by G. D. Ambekar, President Maharashtra Branch of INTUC.

### 3.

## *HMS* *memorandum*

*The following is the text of the Memorandum submitted to the Experts Committee on Consumer Price Index Numbers, Bombay on behalf of Maharashtra State Council of HMS.*

PERSUANT TO THE LETTER FROM THE SECRETARY OF THE COMMITTEE, enquiring us as to whether in our opinion there is any validity in the grievance made to the Government about the construction of the existing series of Consumer Price Index Numbers for the city of Bombay and whether there should be any readjustment, the Hind Mazdoor Sabha desires to submit the following memorandum for the consideration of the Committee. It will be appreciated if a representative of the Hind Mazdoor Sabha is heard orally by the Committee so that elucidation and explanation of various points raised in the following memorandum would be easy.

*Term 1:* The Consumer Price Index is a ratio of the cost of a particular commodity basket at two different points of time. This ratio can meaningfully represent the change in the consumer prices during the two points of time if the contents of the commodity basket are substantially the same at the two points.

2. In practice over a period, the contents of the commodity basket do not remain unchanged due to various causes. Hence, Consumer Price Indices computed on the assumption that the contents of the basket have not changed, tend to become increasingly unreal as time passes. On the other hand, if the contents of the commodity basket itself are continually modified in accordance with the actual consumption pattern, the index series does not remain meaningful.

3. Thus, readjustment of the present series of Consumer Price Indices involves, inter alia, two mutually contradictory factors.



4. Changes in the contents of the commodity basket may be due to various causes which, in turn, will fall in two broad groups: (i) Voluntary on the part of the workers and (ii) Involuntary. Voluntary changes would include changes in consumer preference and tastes, changes in the standard of living and so on. The change in the commodity basket that results from certain commodities being unavailable in the market, some being obligatory under law and so on, can be grouped under involuntary changes.

5. The need to keep the commodity basket unchanged as far as possible and the need to prevent the Index from becoming altogether unreal, may be reconciled by adopting the principle that all voluntary changes in the commodity basket may be ignored but all involuntary changes during the tenure of a particular series of indices may be taken into consideration. Of course, when fresh family budget surveys are conducted, these yield the data for the construction of a new commodity basket and a new series of indices.

6. On the principle that all involuntary changes must be allowed for but not voluntary changes in readjustment of the existing series, the following items need to be considered:

(i) *Ghee (Food Group)*: Substitution of Vanaspati for Ghee in the original commodity basket is unjustified. Ghee is still available in the market and can be purchased freely. The fact that its price is high and therefore, workers prefer to buy Vanaspati, really amounts to a fall in the standard of living to that extent. This is a voluntary change. That cannot justify the substitution in the basket item.

(ii) *Clothing Group*: The manner in which this group is tackled at present is somewhat intriguing. No convincing reason can be discovered for freezing the prices of dhoties, shirting and sarees at the 1952 or 1953 levels. It is sometimes argued that this is done because precisely the same sorts of goods as went into the original commodity basket are no longer produced. This is difficult to believe, more especially so in the case of dhotis and sarees. But accepting the official explanation to be true, these would be cases of involuntary changes. Hence, the prices of the nearest substituting of the original sorts must be taken for computing the index.



(iii) *House Rent*: This again is an item of involuntary change. The houses which were available in 1933-34 for Rs. 5 per month rent, are no longer available. Hence the expenditure to be allowed under this item must be actually prevailing in the city to-day.

(iv) *Travel within City*: This is a new item which falls in the category of involuntary change. The city having grown so vast, worker has no choice but to stay far away from the place of work. For the purpose of fitting it within the existing series, this item may be included in the item "travelling to and fro the native place" which may be suitably renamed. The actual cost under this may be taken from the new family budget survey or estimated afresh.

(v) *Medicines*: Since the ESI Scheme was applied to Bombay City, the workers' contributions to the ESI Corporation are deducted at the source. This replaces the item 'Medicines' in the existing series. This is an involuntary change. Hence the average contribution for a worker in Bombay to the ESI should be taken as the present cost under the item 'Medicine'.

7. The other important question to be considered in readjusting the existing series of consumer price indices whether the prices taken by the Labour Department of the Government of Maharashtra for computing the index figure every month are in fact that prices which the worker has to pay for buying the items in the commodity basket. A careful examination of the figures published by the Government of Maharashtra every month makes it quite clear that these prices are not correct in some cases. It will, therefore, be necessary to correct these incorrect prices and work out the correct index figure on the basis of corrected prices.

8. A conspicuous, but not the only instance of incorrect pricing is the term "Travelling to and fro the native place" under the miscellaneous group. It is priced at present on the assumption that all workers reach their native places by rail and pay class III fares. This is patently incorrect. In fact a much larger number have to use road transport for a part or whole of the journey and the fares for road transport are substantially higher than class III rail fares. It would perhaps be more realistic to split the distance into rail and bus travel in the ratio 1:2 and price

it accordingly. In the alternative, the findings of the fresh family budget inquiry may be used to determine the rates of different modes of travel and this item in the existing series may be priced on that basis.

9. *Term 2:* The need for linking the existing series of consumer prices with the new one which the Government proposed to introduce, arises because the Dearness Allowance of the workers are at present based in most cases on the present series and will have to be adopted to the new series when it is introduced. The simple procedure proposed originally by the Labour Bureau and the Labour Ministry of the Government of India was that this should be done by the computation of a simple multiplying factor by which the index figures under the new series can be equated to those in the old series. This would be logical enough provided there was reasonable certainty that the indices under the existing series are correct. It is evident from what has been said above, that this is not the case. Whatever may be the reasons for the inaccuracy in the existing series, these would be carried into new series if the simple procedure suggested by the Labour Ministry is adopted. Thereby, the workers will continue to lose heavily in their Dearness Allowance. The mere introduction of a fresh series of consumer price indices is no consolation to the workers if they continue to be robbed of their legitimate Dearness Allowance due to the errors in the old index figures being bodily incorporated in the new series. For instance, in the year 1960, the index figure under the existing series for Bombay City was 420. If this equated to 100 in the new series, the Dearness Allowance payable to workers would be the same as for index figure 420 in the existing series. However, if the existing series is corrected and readjusted as urged above, the corrected index figures for 1960 would be substantially higher than 420. If, for instance, the corrected index figure for 1960 is 450 instead of 420, then index figure 100 in the new series would have to be equated to 450 in the existing series. This would also mean that the Dearness Allowance payable at 450 and not 420 in the existing series. By thus taking the corrected index under the present series as the basis for linking it with the new series, one can ensure that at least in future the indices under the new series will reflect the correct level of consumer prices and that workers will get the Dearness Allowance under the existing agreements,

awards, etc. for the price levels which they actually have to meet..

10. In the opinion of the HMS, it would, of course, have been much better if the base for the new series was to be the same year during which the fresh family budget surveys were conducted. The HMS however, does not feel that the discrepancy introduced into the new series to the small gap between the actual family budget surveys and the proposed base year, is serious. The pattern of consumption as a whole is unlikely to have changed very materially within that gap of less than 2 years and hence such changes can be safely ignored. Indeed, if it were to be assumed that the pattern of consumption changes materially within so short a period, there would be no sense in constructing consumer price index series at all.

11. We are not aware whether the Government of Maharashtra has collected reasonably accurate price data on all the items which go into the new consumer price index since 1960 or earlier. If such data has been collected, then computing the new index figures for 1961, 1962, and the current year on the base 1960=100 will offer no serious difficulty. The same prices can also be utilised for computing the index figures under the old series though the items in the old series, of course, are much fewer. This can provide a check on whether the readjustment of the existing series as suggested earlier has been reasonably satisfactory or not. The ratio of the corrected index under the existing series and the actual computed index under the new series should be calculated for each of the months from January, 1960 to December, 1962. The mean of these 36 monthly ratios may be adopted as the multiplier factor to be used in future for linking the existing and the new series.

12. Hind Mazdoor Sabha therefore submits that there is a clear case for readjusting the existing series of consumer price index for the City of Bombay on the lines suggested above. The Hind Mazdoor Sabha is also of the opinion that fresh series of consumer price index numbers in Bombay which Government proposed to introduce should be linked with the so adjusted existing series. Hind Mazdoor Sabha further suggests that while considering the question of linking up, there is a need to take into consideration the factor that the period of family budget enquiry on which the proposed new series of consumer price index num-

ber is based, is different from the base period for the proposed new series and in that light a suitable adjustment in the new series itself becomes necessary.

We hope and trust that the Committee will give due consideration to the points raised in the above memorandum.

The Memorandum was signed by H. V. Sovani, Secretary Maharashtra State Council of HMS.

### *Appendix I*

#### RESOLUTION OF MAHARASHTRA GOVERNMENT ON THE APPOINTMENT OF EXPERT COMMITTEE

*Following is the text of the Resolution No. Cl. N-1163/Lab-I dated 22 August, 1963 by which the Maharashtra Government constituted the Expert Committee:*

Whereas it has been represented to Government, that the present series of Consumers Price Index Numbers for Bombay does not adequately reflect the existing pattern of consumption and variation in prices for the following reasons:

(1) The price collection in respect of certain items does not take place at all in view of certain items being frozen, such as, certain varieties of cloth.

(2) The price collection is faulty or inadequate and not in line with reality, such as house-rent or selection of shops for purposes of pricing.

(3) Wrong basis has been taken for price collection as in the case of travel to and from the native place.

(4) Certain items of expenditure have practically gone out of existence due to compulsory change effected by law in the item of expenditure such as item on medicine on account of medical benefit under the Employees' State Insurance Scheme.

And whereas it has also been represented to Government that the period of Family Budget Enquiry on which the proposed new series of Consumers Price Index Numbers for Industrial Workers is based is different from the base period for the proposed new series and there has been variation in prices during the two periods.

Therefore, Government is pleased to appoint an Expert Committee consisting of the following persons:

*Chairman:* Professor D. T. Lakdawala, Director, Department of Economics, University of Bombay, Bombay; *Members:* Dr. K. M. Mukerjee, Reader, Gokhale Institute of Politics and Economics, Poona, Shri C V. Rao, Deputy Director of Statistics, Reserve Bank of India, Bombay.



2. Shri T. R. Bhagwat, Assistant Commissioner of Labour, Bombay, should be appointed as Secretary to the above Committee in addition to his own duties.

3. The terms of reference of the Committee should be as follows:

(1) To examine the validity of the submissions made and make recommendations as to whether any readjustment is necessary in the existing series, and if so, what readjustment should be made.

(2) To consider how the fresh series of Consumer Price Index Numbers for Bombay, which Government proposes to introduce, should be linked with the existing series, so readjusted if found necessary; and in so considering, take into consideration the factor that the period of Family Budget Enquiry on which the proposed new series of Consumers Price Index Numbers for Industrial Workers is based is different from the base period for the proposed new series.

4. The Committee may hear the representatives of the All India Central Organisations of Employers and Workers.

5. The Committee should submit its detailed report to Government within two months from the date of this Resolution. In case it is not possible for the Committee to submit its whole report within this time limit the Committee may at least submit interim report on the question of readjustment of the existing series within two months.

6. The Chairman and members of the said Committee should be paid travelling allowance and daily allowance for any journey performed by them in connection with the work of the enquiry in accordance with scale I specified in rule 1(I)(b) of Appendix XLIIIA, Section I to the Bombay Civil Services Rules. The expenditure is debitable to the budget head "38-Labour and Employment -B-Labour-B-37-Constitution of Machinery for conducting Socio-Economic Enquiries" and should be met from the sanctioned grants for the current financial year.

7. This Resolution issues with the concurrence of the Finance Department, vide its unofficial reference No. 12013/1020/VI, dated the 22 August 1963.

# Appendix II

## ACTUAL EXTENT OF ERROR IN OFFICAL CONSUMER PRICE INDEX NUMBER

Sr. No.	Article	Unit of quantity	Weight proportionate to total expenditure	Price per unit of quantity			Index No. for June 1963	
				Year ended June 1934	As Collected Labour Dept.	As obtained for actual quality specified in original	Labour Dept.	Actual with necessary corrections
1	2	3	4	5	6	7	8	9
Food								
1.	Rice (luchi)	Kg.	16.5	0.1172	0.37	—	742	742
2.	Rice Govt.	"	5.5	0.0837	0.46	—	550	550
3.	Patani	"	6	0.0837	0.66	0.75	780	900
4.	Wheat	"	3	0.0837	0.41	0.70	490	835
5.	Jowari	"	1	0.0837	0.56	—	669	669
6.	Bajari	"	4	0.1061	0.60	—	622	622
7.	Turda	"	4	0.1019	0.95	—	587	587
8.	Gram	"	1	0.1395	0.81	—	581	581
9.	Raw Sugar (Gur)	½Kg.	1	0.1061	0.52	0.56	490	528
10.	Sugar (Refined)	Kg.	5	0.2958	1.20	—	406	406



1	2	3	4	5	6	7	8	9
<i>Fuel and Lighting</i>								
30.	Charcoal	40 Kg.	30	1.7527	9.09	—	519	519
31.	Fire Wood	40 Kg.	52	0.9377	3.82	—	407	407
32.	Kerosene Oil	Litre	16	0.1512	0.40	—	265	265
33.	Matches	Two Boxes	2	0.0347	0.12	—	346	346
Total Fuel & Lighting			100					
Index number of Fuel and Lighting							417	417
<i>Clothing</i>								
34.	Dhoties	Pair	15	2.4635	12.73	22.67	517	920*
35.	Coating	M.	12	0.3930	1.69	2.25	430	572*
36.	Shirting	Yards	23	0.1302	0.62	1.50	476	1152*
37.	Clothing for Trousers	M.	4	0.2905	1.62	2.00	558	690*
38.	Saree	Each	36	3.2708	10.72	19.00	328	581*
39.	Khans	Piece	10	0.6563	1.21	2.00	184	304*
Total clothing			100					
Index number for clothing							397	730

1	2	3	4	5	6	7	8	9
<i>Housing</i>								
40.	House Rent Index No. per 102 sq. ft. room area	Per month	100	6.3698	6.77 to 24	18	106	300* (Round about)
<i>Miscellaneous</i>								
41.	Barber	Shave	13	0.0833	0.30	—	360	360
42.	Soap (Washing)	Bar	9	0.4115	1.50	—	365	365
43.	Medicine (Bottle of	Mixture)	3	0.5000	0.75	—	150	§
44.	Supari	½ Kg.	25	0.3461	4.34	—	1254	1254
45.	Bidies	Bundle	25	0.0625	0.19	—	304	304
46.	Travelling to and from	28 Miles	27	0.3073	0.50	—	163	480†
47.	Newspaper	Copy	1	0.0469	0.07	—	149	149
Total Miscellaneous			100					
Index Number—Miscellaneous.							510	609



Group	Weights proportionate to total expenditure	Group Index No. for June 1963	
		Labour Dept.	Actual
Food	47	533	592
Fuel and Lighting	7	417	417
Clothing	8	397	730
House Rent	13	106	300
Miscellaneous	14	510	609
	—	—	—
Consumer Price Index††	89	446	550

†† As a result of this faulty index a worker is deprived of Rs. 29.44 per month as D.A.

\* Prices taken by us from shops in working class area of original specifications, or of qualities close to the original specifications.

\*\* Prices taken from personal observation and Supply-Commissioner's Office.

† Worked out on the basis of information supplied by the Maharashtra Rajya Machchimar Sahakari Sangh, Crawford Fish Market, Bombay, regarding prices of varieties of fish in 1934 and June 1963. See Note 2.

$$\dagger\dagger \text{ Rate of Milk} = 50\% \text{ Govt.} + 50\% \text{ open} = \frac{104 + 150}{2} = 127 \text{ nP.}$$

§ Weightage of tea (5) has been distributed over its constituents, namely, Tea (1), Sugar (2), Milk (2).

Weightage of medicine (3) has been distributed over the whole of the miscellaneous group. Both these changes made for reasons stated in our note to the Committee.

‡ Internal weightage of mode of travelling distributed equal over road, railway and water on the basis of justification given by the R.M.M.S. in its note to the Committee.

Note 1.

Regarding the contention that Supari prices have ceased to be representative of the Pan Supari Group of articles, it is submitted firstly that strictly speaking it is not permissible to change representative articles during the life of a series unless the article has gone out of market and such a change can be subject for a fresh series only. Secondly, if a close scrutiny of indices of Tobacco and Pan are made from Jalgaon and Nagpur index series it will be found that the price change in Supari does not very much deviate from the price changes in Pan and Tobacco—two other important items of this group. Thirdly, if the Supari group is re-opened, then the brinjals and pumpkins of the vegetable group, which have been given excessive weightage of 5 each will have also to be re-opened and prices of Cabbage, Cauliflower, Tomatoes will have to be taken.

Note 2

Consumer Price Index of fish sub-food group on the basis of information supplied by Maharashtra Rajya Machchimar Sahakari Sangh Ltd.

Sr	Item	Unit	Average Prices.		Index	Weightage	Weighted Index
			1933-34	1962-63			
	Fish Dry Bumblows	lb	1½ As.	11 As.	730	3	2190
	Sode	B. Maund	Rs. 10	Rs. 180	1800	1	1800
	Fresh Bumblows	Dozen	1 Anna	8 As.	800	1	800
	Colambi	Basket of 40 lbs.	Rs. 3/-	Rs. 27/-	900	1	900
	Bhing (3 lbs.)	22 Nos.	Rs. 25/-	Rs. 90/-	360	1	360
	Pala (2 lbs.)	22 Nos.	Rs. 16/-	Rs. 70/-	437	1	437
						8	6497

$$\text{Index number for fish group} = \frac{6497}{8} = 812$$

