## MEMORANDUM
## ON MERGER OF DA WITH PAY AND INTERIM RELIEF.

We solicit the kind reference of the 7th Central Pay Commission to the discussion during the informal interaction the staff side of the National Council had with the Commission on 28.5.2014, when we inter alia raised the issue of merger of Dearness allowance and Interim Relief.

2. Before we dwell upon the issues, it may not be out of place to refer to the evolution of the JCM which later became the negotiating platform for the entirety of Central Government employees and workers It was conceived to bring about a conflict free industrial climate in Civil Service in the wake of the tumultuous experience of an industrial strike action in 1960. The National Council, the apex forum under the three tier system headed by the Cabinet Secretary was empowered to deliberate upon the common issues of the Central Government employees. The Staff Side, National Council, thus became the united voice of the entirety of the Central Government employees on fundamental issues like Wages, Pay Scales, Rate of increment, Dearness compensation and other general allowances.

3. However, over the years, JCM became an ineffective instrument to address the basic issues and demands of the employees. We shall detail the requirements to empower and streamline the functioning of the JCM as a negotiating forum in our Main Memorandum to the Commission.

4. The twin issues viz. Merger of DA and Interim relief had been the subject matter of discussion with the Government when the Staff side was called upon to present their views in the matter of finalization of the terms of reference for the 7th CPC by the Secretary, Personnel, (Department of Personnel and Training) in his capacity as Chairman, Standing Committee, National Council JCM. Though we pleaded for the specific reference of the above two issues, to the 7th CPC, the final

version of the terms of reference approved by the Government did not find a place for our views. We have, therefore, been constrained to take recourse to clause 5 in the terms of reference, which enables the Commission to send interim report to the Government.

**MERGER OF DA WITH PAY**:

5. Dearness allowance is considered as a device to protect, to a greater or lesser extent, the real income of wage earners and salaried employees from the effects of rise in prices. As per the vagaries of price fluctuation in the market, the allowances are bound to go up and down. Constant rise in the price level, might bring about a situation whereby the quantum of allowance shall go up. Such a phenomenon of constant increase of prices of commodities gave rise to the demand for merger of Dearness allowances with pay so as to make it pay, rather than an allowance, with all concomitant benefits. A committee to advice the Govt. on the portion of such DA to be treated as pay was appointed on 15th July, 1952 (Resolution No. F6(6)E-II/52). The terms of reference of the Committee was :

> "Taking in to consideration the rates of dearness allowance that have been sanctioned to date for Central Govt. servents, and the level at which cost of living index are likely to stabilize in the foreseable future, to recommend the percentage of dearness allowance now given to the Central Govt. servents which should be allowed to be treated as pay for all purposes in future, provided that by doing so the present total pay and dearness allowance is not enhanced:"

6. The said committee was headed by Shri N.V. Gadgil, Member of Parliament. The Committee in its report concluded that

> "We have recorded the various reasons which we have taken into account in arriving at the conclusion that the appropriate level below which the All India

cost of living index is not likely to fall, should be taken as 265-284. We find that for the index figure of 265, the Central Pay Commission formula allows Govt. Employees in the lowest pay group a dearness allowance of Rs.20/- and this amount remain unchanged until the cost of living index go above the index of the next level i.e. 285. We, therefore, consider that the employees in this pay group, a sum of Rs. 20/- which represents 50% of the present dearness allowance of Rs. 40 per month should be treated as pay (page 22 chapter V Report of the Dearness allowance Committee)."

7. The Committee also enumerated in their report the purposes for which the DA shall be treated as pay as under:-

Retirement Benefits
Travelling allowance
Compensatory allowance
House rent allowance
Compensation of Leave Salary etc.

8. The 3rd CPC, whose recommendations were implemented with effect from 1.1.1973 had no reference from the Govt. on the question of merger of DA. Still while dealing with the issue of Dearness allowance (vol.IV – Page 1 Ch.55) the Commission noted that "no other country in the world (except Ceylon and Pakistan) seems to be following the practice of paying dearness allowance or cost of living allowance as a separate element of wage. In most of the countries compensation to Govt. employees for the increase in the price level is given by way of periodical salary revisions Prior to the setting up of the 3rd CPC, pursuant to the discussion in the National Council, JCM, the entire dearness allowance as on 1.8.1966 was treated as Dearness pay and the consequent increase in allowance was granted by the Government with effect from 1.12.1968. In para 16, the Commission recommended that should the price level rise above twelve monthly index of 272 ( 1960=100) the Government should review the

position and decide whether the Dearness allowance Scheme should be extended further or the pay scale themselves should be revised. ( Page 4 Chapter 55. Vol. 4 3rd CPC report). On crossing the index point of 272, the Government conceded the demand for merger of 36% of DA with pay. Later, based on an agreement reached at the National Council JCM the DA granted upto the index level of 320 points i.e. 60% of the Basic Pay was merged through executive instructions for purpose of allowances and pension. Before the 4th CPC was set up in 1983, the issue of further merger of DA with Pay was raised by the employees. Conceding the demand the Government decided that DA entitled to be drawn upto the index average of 568 points be treated as pay for all purposes.

9. Since the Pay Scales were to be constructed with reference to the consumer price index as on the date of revision, every Commission had to perforce merge the entire DA when the actual revision was made. The DA on such revised pay is to be computed on the basis of annual average rise of index after every six months interval. Therefore, the question of merger of DA again rose at the time of negotiation with the Government for setting up the 5th CPC. An agreement was reached on merger of certain percentage of DA and interim relief. (Rs. 100/-) in September, 1993. In April, 1994, the Government issued notification setting up the 5th CPC (resolution No. 5(12)E-III/93 dated 9.4.1994).

10. The Staff Side placed before the 5th CPC the necessity to merge DA with Pay at an index level below which prices were not likely to move downwards. Pointing out that in the last two decades i.e. 1980s and 1990s there had been not a single occasion when the annual average index had fallen consequent upon which the DA rates were to be reduced, they requested the Commission to merge the entire DA which had been at 97% of the Basic pay as on 1.7. 1993. (The AICPI index being 1201.66). The Commission after deliberations on the memorandum and discussion with the staff Side, recommended that 97% of Basic Pay as DA admissible from. 1.7. 1993 be treated

as Pay for all purposes. However, they suggested that the said merger might be given effect only from 1.4. 1995.

The 5th CPC submitted its final report to the Government on 19th January, 1997. Before the Commission, the Staff side had demanded that as and when the consumer price index exceeds 25% of the base index at which the pay is fixed that proportion of Dearness allowance should be treated as Pay for all purposes and the decision on this must not be left at the discretion of the Government. The Commission considering this demand observed that:

> "From the past trend of CPI given in annexure 11'8.1 it is observed that 50% increase in prices generally takes around five years to materialise. A mid-term quinquennial revision of salaries of the Government employees is not something the Government should grudge. In view of the above, we recommend that **DA should be converted into Dearness Pay each time the CPI increases by 50% over the base index used by the last Pay Commission.** Such DA should be termed as Dearness Pay and be counted for all purposes including retirement benefits. (Chapter 105 page 157)".

11. The 5th CPC thus regularised the periodical merger of DA into a well thought out scheme. They also established that wage revision is needed either when the DA exceeds 50% over the base index or after five years .

12. The Government, however, did not act upon this recommendation, when the percentage of DA exceeded 50( 52%) as on 1.7.2002, though it had accepted the recommendation in 1997. With the persistent persuasion, ultimately, the Government issued orders treating 50% DA as Dearness Pay for all purposes with effect from.1.4.2004.

13. Even though the $5^{th}$ CPC had brought about a finality on the approach to the question of merger of DA with pay, the $6^{th}$ CPC reopened the issue afresh. The Commission made the following observation-

> "This conversion (merger of DA with Pay) is however not necessary in the revised structure being recommended where increments are payable as a percentage of Pay in the Pay Band and Grade Pay thereon and provision has been made for all allowances/benefits to be revised periodically, linked to the increase in the price index. The Commission is, therefore, not recommending merger of DA with Basic pay at any stage."

14. The $3^{rd}$, $4^{th}$ and $5^{th}$ Central Pay Commissions had approvingly endorsed the recommendations made by Gadgil Committee in 1952. The practice of periodical merger had been followed as a device to protect the erosion in the real value of wages (including allowances) especially at the lowest level of employees. This erosion becomes unbearable when DA crosses over 50%. To say that the increment rate which is presently 3% of pay would take care of the erosion is to say the least, atrocious. Increment is granted as a legitimate reward for the service rendered by an employee for a year. It has nothing to do with the erosion in the real value of wages. No doubt, the $6^{th}$ CPC has recommended that a few allowances should be revised by 25% as and when the DA crosses over the stipulated 50%. Such allowances are very in number. Moreover, 25% rise as a compensation when the DA itself rises to 50% is arbitrary and conceived to compensate the worker with lesser amount than what he is entitled to.

15. We, therefore, strongly plead before the Commission, for the reasons enumerated in the foregoing paras, that the Dearness allowance as on 1.1.2014 which stood at 100% may be recommended to be merged and treated as Dearness Pay for grant of all benefits, allowances, pension and other retirement entitlements.

16. We further submit that Merger of D.A. as on 1.1.2014 may also be recommended in respect of pensioners and Gramin Dak Sewaks of Postal Departments.

## INTERIM RELIEF.

Barring the 6$^{th}$ Central Pay Commission, all other Commissions had recommended grant of Interim Relief to the Central Government Employees. As per the 5thCPC, Interim relief represented a provisional arrangement during the period between setting up of a Pay Commission and submission of a report by the Commission and its acceptance by the Government. Most of the earlier Commissions with the exception of Ist and 6$^{th}$ Central Pay Commission had taken 2-3 years and sometimes more to finalise their recommendations. Despite the specific reference made to the 6$^{th}$ CPC, by the Government to consider grant of Interim Relief the Commission took the position that having decided to submit its recommendation within the stipulated period of eighteen months and having arrived at a view that its recommendations must be effective from 1.1.2006, it shall not waste time on the question of interim relief. What the 6$^{th}$ CPC failed to appreciate was the erosion in the real value of wages that had taken place over the years due to inflation and rise in prices of essential commodities and the inability especially of the employees at the lower level to make the both ends meet with the available wages. No doubt, the employees had been to some extent benefitted by the decision of the Government to merge 50% Dearness allowance and treat it as pay for all purposes including DA thereon.

2. Every Pay Commission which had recommended Interim Relief had made it amply clear that it was intended to provide some relief to the employees pending a comprehensive determination of their salary structure and other benefits. The relief granted was treated as sui generis (one of its own kind, unique) and it was not taken into account for determining any allowance or benefit.

3. We give below briefly the course of negotiation and approach of various earlier Pay Commissions on the question of grant of interim relief.

4. The Second Pay Commission gave a report within a month's time and recommended an Interim Relief of Rs. 5/-. The third pay Commission gave three instalments of Interim Relief on varying rates. After appoint of the 4th CPC in July, 1983, Government sanctioned (Vide Department of Expenditure O.M.No. 7(39)-E III/83 dated 2nd August, 1983) on their own initiative Interim Relief at varying rates of Rs. 50 and Rs. 100 per month. In March, 1985, 4th CPC submitted a report and granted a further interim relief at 10% of Basic pay subject to a minimum of Rs. 50 per month. Again before the setting up of the 5th CPC, the Government sanctioned Rs. 100 as interim Relief. As it was not considered adequate, the staff side of the National Council, JCM submitted a memorandum to the 5th CPC demanding additional interim relief. The Govt. vide their Department of Expenditure, Resolution No. 5(12)EIII/93 dated 12.01.1995 amended the terms of reference to enable the Commission to decide upon the additional interim relief. The 5th Central Pay Commission in their interim report submitted on 2nd May, 1995, recommended Interim Relief equal to 10% of Basic Pay subject to a minimum of Rs. 100/-. The terms of reference of 6th CPC on the issue of Interim Relief was as under:-

> "2.g. To examine desirability and need to sanction any interim relief till the time the recommendations of the Commission are made and accepted by the Government. "

5. It has to be recalled that the Government did not initially refer the question of Interim Relief to the 5th CPC but when the Staff Side submitted their memorandum to the Commission on I.R., the Government had to amend the terms of reference and refer the issue to the Commission for their decision.

6. These go to establish the need for a relief in view of the erosion in the real value of wages, the need to fill the widening gap in wages when compared to outside rates and the fact that final recommendations of the 7th Pay Commission are bound to revise the wage structure and above all the need to provide some relief to the employees who would retire before the Commission's recommendations are finally submitted to the Government and accepted by them.

7. We give hereunder a table indicating the retail prices of the commodities which goes into the computation of minimum wage as per Dr.Ackroyd formula as on 1.1.2006 (quoted by the 6th CPC in their report. Page 53. Table 2.1`.1 Chapter 2.2.) and the actual retail price of those very commodities as on 1.1.2011. The percentage increase in the prices of each commodity is also given in the table. The average rise in prices was of the order of 174%, whehreas the Dearness allowance entitlement was only 51%.. The table clearly indicate the erosion in the real value of the wages.

| Sl.No | Name of articles | Price as 1.1.2006 | As on date | %increase |
|---|---|---|---|---|
| 1 | Rice | 18 | 38 | 120 |
| 2 | Dhall 4 varieties; average | 40 | 87 | 120 |
| 3 | Raw vegetables | 10 | 40 | 400 |
| 4 | Green veg. | 10 | 56 | 560 |
| 5 | Other veg | 10 | 40 | 400 |
| 6 | Fruits | 30 | 100 | 330 |
| 7 | milk | 24 | 32 | 40 |
| 8 | Sugar,jiggery. average | 24 | 43 | 95 |
| 9 | Edible oil.3 varieties.average | 50 | 95 | 95 |
| 10 | Fish | 120 | 300 | 150 |
| 11 | meat | 120 | 240 | 100 |
| 12 | egg | 2 | 3 | 50 |
| 13 | Detergents/soap | 200 | 350 | 75 |
| 14 | Cloth | 80 | 120 | 50 |
| | Average increase : | | | 174 |

8. The need based minimum wage computed on the basis of Dr Ackroyd formula as on 1.1.2014 will be around Rs. 26,000 bringing about a gap of almost 12,000 at the level of an MTS. We shall submit the details thereof in our main memorandum.

9. The only Public Sector undertaking in which the wage agreement has been reached in 2013 is the Coal India Limited. As per the said agreement, the minimum wage at the lowest level of the worker as on 1.12014 is:

| | | |
|---|---|---|
| Basic Pay | | Rs. 15, 712 |
| Dearness allowance | 29.6% | |
| Special allowance | 4.0% | |
| Special DA. | 1.795% | |
| Attendance bonus | 10% | |
| Total: | 49.395% | Rs. 7132.46 |
| Total salary: | | Rs.22844.46 |
| At the MTS level 22.844.46 x 130% | | Rs.29697. |

10. As per the formula adopted by the 5th CPC, the minimum wage will work out to Rs. 22,857 as under:

| | |
|---|---|
| A. Per Capita NNP at constant price for 2004-05 | Rs. 24,143 |
| B. Per capita NNP at constant price for 2011-12 | Rs. 38,037 |
| C. The increase registered over 8 years. | Rs. 13,894. |
| D. Percentage increase over 2004-05 | 57.54877. |
| E. Emoluments of an MTS as on 1.1.2014 | Rs. 14,000 |
| F. 57.55% of Rs. 14,000. | Rs. 8,857. |
| G. Wage to be fixed in thecase of MTS as on1.1.14. | Rs. 22857. |

From the above it is seen that Central Government employees presently have a very depressed salary structure. The final outcome of the deliberations of the 7th CPC will become available only by 2016. It is, therefore, needed that the employees have to be compensated in the form of Interim Relief. In our opinion the Commission may, as has been done by the various earlier Pay Commissions, recommend atleast 25% of Pay in Pay Band plus Grade Pay as Interim Relief subject to a minimum of Rs. 4000/-.

Incidentally we may point out that the grant of interim relief will enable the Government to spread out the financial outlay on account of wage revision over a period of more than three years.

We further urge that the Commission may kindly recommended Interim Relief at the above rate subject to minimum of Rs.2000/- to as pensioners and Gramin Dak Sevaks of Postal Department.

SHIVA GOPAL MISHRA
Secretary, Staff Side, National Council JCM.