Indian Economy · GS - III

Examine the economic rationale behind the demand for merging Dearness Allowance with basic pay before applying the fitment factor. What are its implications for government expenditure, inflation protection and fiscal sustainability?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 22/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Dearness Allowance, fitment factor, real wages, inflation indexation, pay commission, fiscal burden, pension liabilities, public expenditure, fiscal sustainability

Model Answer

Introduction

Dearness Allowance (DA) compensates government employees for inflation-related erosion in purchasing power, while the fitment factor determines the multiplication applied to existing basic pay during salary revision.

Economic rationale for DA merger

1. **Protection of real wages:** Merging accumulated DA into basic pay can provide a higher revised salary base and protect purchasing power.
2. **Higher future benefits:** Since several allowances and retirement benefits are linked to basic pay, merger may increase associated entitlements.

3. **Pay restructuring:** It can simplify the transition from an inflation-linked allowance to a revised basic-pay structure.

Economic and fiscal implications

1. **Higher fiscal expenditure:** A larger basic-pay base can increase the government's salary and pension liabilities.
2. **Recurring commitments:** The resulting increase may create long-term expenditure obligations for both the Union and states, depending on their pay policies.
3. **Inflation management:** DA adjustments protect employees against inflation but do not directly control the underlying causes of rising prices.
4. **Fiscal trade-offs:** Higher employee compensation may reduce fiscal space available for infrastructure, welfare and capital expenditure.

Way Forward

The government should assess the merger demand through transparent fiscal-impact estimates, inflation trends, pension liabilities and intergenerational expenditure considerations.

Conclusion

Pay revision must balance employees' purchasing power and fair compensation with fiscal sustainability. A predictable, evidence-based mechanism can make salary restructuring equitable without undermining public investment and fiscal stability.

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