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RISING SALARIES AND FALLING INCOMES

Bhavani Akkapeddi

ABSTRACT

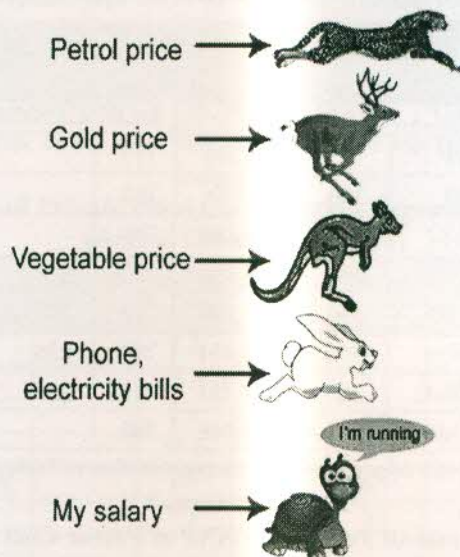
The objective of the case is to make students understand the concept of 'inflation', its impact on standard of living of fixed income groups, in specific the salaried class. It throws light on some of the methods of measurement of inflation in India. The data related to rate of increase in consumption and share of different items in consumption of Indian economy, gives a direction to the reader to assess the impact of inflation on the standard of living of the population. This case talks about the link between different variables like money income, prices and real income, i.e., income in terms of goods and services. To depict this, details of salary of an anonymous employee of an organization is taken. The case shows that, though there is a continuous increase in the money income, the incessant increase in prices is adversely affecting the improvement in the standard of living.

Key Words: Inflation, Money Income, Real Income, WPI, Policy Makers; Govt. of India and RBI.

Anand and Madhu took up employment as Executives in a firm, in the year 2005. Since then, they received many increments and promotions. Their salary was growing continuously, year on year (Annexure-1). For both of them there were increments and promotions accompanied by appreciation and additional responsibility. Now both of them are Deputy Managers. Anand is very happy about the periodical increase in salary, appreciation and designation. But Madhu is not very happy that though there is a continuous increase in salary, unable to get some of the goods when salary was low and even now with increased salary. And at the time of joining he was working for 8 hours a day, including 1 hour lunch. Now he works for around 11 to 12 hours a day and many a time he will not have time to have a proper lunch. Madhu follows news regularly and the news related to inflation draws his attention. He is aware of the news related to inflation and food inflation in specific, which is bothering the common man. As rescuers of the general public, in a democratic system, inflation is also bothering the policy makers like Reserve Bank of India and Government of India for the last four five years. The news makes him start paying attention on the management of his household income and expenditure. For him all these days, the puzzling thing was that though his income is continuously increasing, the income is becoming insufficient and his standard of living is not improving as he is expecting it to be. Madhu and his colleagues discussed at length, regarding this. Understanding Madhu's point of view Sudhakar shared a picture he received from his friends in Face Book (Figure 1). They blamed the government, i.e., the current ruling party, for lack of commitment towards the salaried class and the middle income group. They were of the view that, the Party in power takes care of the Corporate, that is, the rich and the investment class of the country on the one hand and the population who are poor on the other. Political parties in power take care of the Corporate as the source of party funds and the latter as the source of vote bank.

RISING SALARIES AND FALLING INCOMES

Figure-1: Prices of Different Commodities and Salaries



They discussed at length about the different schemes of Public Distribution System, benefiting the poorer sections of population in Andhra Pradesh and the neighboring state of Tamilnadu. The government of Andhra Pradesh is one amongst the first to introduce the distribution of rice at a very low price of Rs. 2 with a high component of subsidy from the government, during 1980s. It also provided the poor with clothing and other necessities at subsidized prices. After 30 years though the prices of all the commodities increased to unmatched levels and proportions, the price of rice which is distributed through the ration shops at subsidized prices was reduced to half of the 1980s price, to Rs. 1. The political parties of Tamilnadu compete with each other in distributing colour TVs, computers, wet grinders etc. to the so called underprivileged or poorer sections of the population. These public distribution schemes may benefit and might have benefited the poor. But, none of these are of any benefit for the middle income group of population.

Another puzzling thing for them was, sometimes the news states that inflation is at its 3 months low, or 5 weeks low. Sometimes even they read the news that the food inflation was negative for few weeks.* The thing which puzzled them in specific was, when there was no decrease in the prices in general and any commodity in particular, as far as their knowledge goes, what does the inflation rate indicate when it is decreased and when it is negative? He and his friends were unable to understand the meaning of decrease in inflation rate and negative inflation rate. They were unable to understand the link between the different rates of inflation and prices, different measurement of inflation followed in India and the inflation and its impact on consumption and saving. They also wanted to check whether their income is growing as per the Indian average or not. Sudhakar said to know that they need to compare it with that of per capita GDP growth rate of the country. He has also shared the data related to annual growth rate of per capita NNP at Factor Cost, yearly Wholesale Price Index - All Commodities, yearly Wholesale Price Index - Food Articles, Private final consumption expenditure annual growth and share (Annexure 2-6), Anand, Madhu, Sudhakar and their friends know that there is a link but failed in explaining it. If they approach you for a clarification, how are you going to explain them with the help of the available data and inputs you received from Economics classes on inflation and its impact on real wage?

B. Akkapeddi

Annexure- 1**Salary Details of Anand, Deputy Manager, ABC Enterprises, Hyderabad (since 2005-06)**

| YEAR | BASIC | D.A. | H.R.A. | C.C.A. | TOTAL | P. F. | E. S. I. | P. T. | TOTAL | NET SALARY |
|---------------------|-------|-------|--------|--------|-------------------|-------|----------|-------|-------|------------|
| GROSS SALARY | | | | | DEDUCTIONS | | | | | |
| 2005-06 | 1,630 | 1,141 | 489 | - | 3,260 | 333 | - | 45 | 378 | 2,882 |
| 2006-07 | 3,950 | 2,370 | 790 | 360 | 7,470 | 780 | - | 80 | 860 | 6,610 |
| 2007-08 | 6,105 | 2,869 | 1,832 | 360 | 11,166 | 780 | - | 100 | 880 | 10,286 |
| 2008-09 | 6,285 | 2,954 | 1,886 | 360 | 11,485 | 780 | - | 100 | 880 | 10,605 |
| 2009-10 | 6,465 | 3,039 | 1,939 | 360 | 11,803 | 780 | 207 | 100 | 1,087 | 10,716 |
| 2010-11 | 6,645 | 4,452 | 1,994 | 360 | 13,451 | 780 | 236 | 100 | 1,116 | 12,335 |
| 2011-12 | 6,645 | 4,452 | 1,994 | 360 | 13,451 | 780 | 236 | 100 | 1,116 | 12,335 |
| 2012-13 | 7,954 | 5,966 | 2,386 | 360 | 16,666 | 780 | - | 150 | 930 | 15,736 |

Source: An anonymous employee's salary details of an organization collected for the sake of Case Study.

Annexure- 2**Annual growth rate of Per Capita NNP at Factor Cost at Current Prices**

| Year | Per Capita NNP at Factor Cost at Current Prices | % Growth of Per Capita NNP at Factor Cost at Current Prices |
|---------|---|---|
| 2005-06 | 27,131 | |
| 2006-07 | 31,206 | 15 |
| 2007-08 | 35,825 | 15 |
| 2008-09 | 40,775 | 14 |
| 2009-10 | 46,249 | 13 |
| 2010-11 | 54,151 | 17 |
| 2011-12 | 61,564 | 14 |
| 2012-13 | 68,757 | 12 |

- Notes: 1. Data for 2012-13 are Provisional.
 2. Data for 2011-12 are First Revised Estimates.
 3. Data for 2010-11 are Second Revised Estimates.
 4. Per Capita Income is calculated taking Population data related to mid-financial year.

Source: <http://dbie.rbi.org.in>, Hand Book of Statistics on the Indian Economy, 2012-13

Annexure- 3**:YEARLY WHOLESALE PRICE INDEX - ALL COMMODITIES**

(Base year 2004-05=100and Weight=100)

| Financial Year | 2012-2013 | 2011-2012 | 2010-2011 | 2009-2010 | 2008-2009 | 2007-2008 | 2006-2007 | 2005-2006 |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Index | 167.62 | 156.13 | 143.32 | 130.81 | 126.02 | 116.63 | 111.35 | 104.47 |

Source: http://www.eaindustry.nic.in/wpi_data_display/display_data.asp (website accessed on 17-12-2013)

The food inflation was negative for a part of the month of December 2011. The inflation was (-) 3.36% for the week ended December 24 because of the decrease in the prices of essential items like vegetables, onion, potato and wheat.

RISING SALARIES AND FALLING INCOMES

Annexure- 4
YEARLY WHOLESALE PRICE INDEX - FOOD ARTICLES
 (Base year 2004-05=100and Weight=100)

| Financial Year | 2012-2013 | 2011-2012 | 2010-2011 | 2009-2010 | 2008-2009 | 2007-2008 | 2006-2007 | 2005-2006 |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Index | 211.82 | 192.74 | 179.63 | 155.39 | 134.8 | 123.57 | 115.52 | 105.38 |

Source: http://www.eaindustry.nic.in/wpi_data_display/display_data.asp (website accessed on 17-12-2013)

Annexure- 5
Annual growth rate of Private Final Consumption Expenditure at 2004-05 prices
 (Annual Growth in per cent)

| Year Type of the Item | 2004-05 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 1R | 2011-12 2R |
|---|---------|---------|---------|---------|---------|------------|------------|
| Food, Beverages & Tobacco | | 3.4 | 6.4 | 3.3 | 0.4 | 5.9 | 5.8 |
| Clothing & Footwear | | 23.3 | 5.0 | 5.0 | 14.9 | 20.2 | -3.9 |
| Gross Rent, Fuel & Power | | 3.8 | 4.7 | 3.6 | 6.0 | 4.2 | 6.2 |
| Furniture, Furnishings Etc. | | 17.1 | 16.1 | 12.2 | 9.0 | 16.6 | 6.2 |
| Medical Care & Health Services | | 8.7 | 4.5 | 6.9 | 8.9 | 7.6 | 6.2 |
| Transport & Communication | | 9.1 | 7.9 | 7.7 | 12.1 | 10.0 | 9.8 |
| Recreation, Education & Cultural Services | | 8.4 | 9.8 | 6.8 | 4.0 | 11.8 | 8.1 |
| Miscellaneous Goods & Services | | 21.1 | 28.6 | 20.2 | 15.7 | 7.9 | 19.1 |
| Total Private Consumption | | 8.7 | 9.2 | 7.1 | 7.5 | 8.7 | 7.9 |

Source: *Economic Survey 2011-12, Ministry of Finance, Government of India.* <http://indiabudget.nic.in/> (website accessed on 18-12-2013)

Notes: 1R to 1st Revised Estimate and 2R refers 2nd Revised Estimate

Annexure- 6
Share of Private Final Consumption Expenditure at 2004-05 prices(Per cent)

| Year Type of the Item | 2004-05 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 1R | 2011-12 2R |
|---|---------|---------|---------|---------|---------|------------|------------|
| Food, Beverages & Tobacco | 40.0 | 37.3 | 36.3 | 35.0 | 32.7 | 31.8 | 31.2 |
| Clothing & Footwear | 6.6 | 8.3 | 8.0 | 7.8 | 8.4 | 9.3 | 8.2 |
| Gross Rent, Fuel & Power | 13.8 | 12.6 | 12.1 | 11.7 | 11.5 | 11.1 | 10.9 |
| Furniture, Furnishings Etc. | 3.4 | 3.9 | 4.1 | 4.3 | 4.4 | 4.7 | 4.6 |
| Medical Care & Health Services | 5.0 | 5.0 | 4.8 | 4.8 | 4.8 | 4.8 | 4.7 |
| Transport & Communication | 19.3 | 18.9 | 18.7 | 18.8 | 19.6 | 19.8 | 20.2 |
| Recreation, Education & Cultural Services | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 | 3.0 | 3.0 |
| Miscellaneous Goods & Services | 8.9 | 11.0 | 13.0 | 14.6 | 15.7 | 15.6 | 17.2 |
| Total Private Consumption | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: *Economic Survey 2011-12, Ministry of Finance, Government of India.* <http://indiabudget.nic.in/> (website accessed on 18-12-2013)

Notes: 1R refers to 1st Revised Estimate and 2R refers 2nd Revised Estimate

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