

CHAPTER I

INTRODUCTION

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Importance of Household Budget Studies

Historically the motivation for early budget studies has been a concern to determine the living conditions of the working class in order to ensure them atleast a minimum level of living. The extension of such studies to higher income groups was a natural consequence which gained momentum as a result of the realisation of the multi-purpose uses to which data from such investigations can be put to. The per capita consumption expenditure and the quantity of goods and services which families are able to enjoy under any economic system are important indicators of the levels of living of the nation. It is in this respect that a continuous scientific study of family budgets assumes importance. The need for conducting such survey work on a continuing basis has been recognized by most countries and in almost all countries permanent or

quasi-permanent surveying organizations have been set up to gather socio-economic data periodically.¹

The importance of data on household consumption has been aptly high-lighted by Prais and Houthakker who have analyzed the family budgets of 3690 households.² They list the following reasons : (i) these records cast light on the conditions of life of the nation; (ii) they are useful for determining weights in the calculation of index numbers ; (iii) they are useful for studying consumer behaviour and deriving laws therefrom econometrically ; (iv) they are useful for market research. 'Family expenditure, income and saving data are as the hub of a wheel^{from} which radiates a wide variety of research serving many different purposes vital to the health of the economy and the welfare of families.'³ Current family expenditure data yield not only information on the existing patterns of expenditure but can serve for comparison with data from earlier studies. Such

¹The National Sample Survey (NSS) was established by the Government of India in 1950 under the Department of Economic Affairs, for conducting surveys on a national basis. The NSS has completed many rounds in the last three decades and provided valuable material for much of econometric analyses done in India.

²S. F. Prais and H. S. Houthakker, The Analysis of Family Budgets, with an Application to Two British Surveys conducted in 1937-39 and their detailed Results. Cambridge, 1955, p. 3ff.

³Mrs. Helen H. Lanale, Bureau of Labor Statistics, U.S. Department of Labor, Speech on 'Uses of Family Expenditure Data', 56th Annual Meeting, ABEA, June, 1965, (Mimeograph).

investigations will indicate what improvements have occurred in the level of living, how any increase in real income is reflected in the family's consumption pattern (what percentage of the increase is allocated for physical comforts, basic needs and what for luxuries or status symbols). Lemale classifies the uses of family expenditure survey data into three categories, as informational, analytical and operational, the classes being not mutually exclusive.⁴ Statistical summaries from consumer expenditure surveys provide information on varied questions pertaining to consumption and saving. Such statistics frequently find their way into text books on consumer economics and are indispensable for family financial counselling. Analytical use arises when expenditure survey data are used with other economic and demographic data to describe and evaluate the economic status of various sections of the population. At the micro-level insight gained by home economists from such budget studies will aid them to analyze the problems of individual families and then set realistic goals for improving their level and manner of living. Lot of useful literature to housewives has been compiled thanks to the availability of such data.⁵

⁴ Lemale, *ibid.*

⁵ Family guidance is very much needed in India where a large number of the poorer sections are subject to dynamic socio-economic changes through the establishment of new industries in what was originally an agriculture-oriented area or through migration to such areas.

In this connection the observations made by Burk with respect to the importance of budget studies are worth noting. According to her, ' cross-sectional studies are basic to historical changes and to forecasting future changes. Knowledge developed from such studies contributes to the depth and breadth of understanding needed to analyze types of macro-economic problems with consumption aspects.'⁶

Need for the Present Study

Consumption studies in India were undertaken seriously and on a large scale only after independence with the implementation of five year plans.⁷ The emphasis has been mainly on ascertaining the consumption levels of the majority of the population and dealt often with the lower income groups. While with respect to regional and occupational differences important work has been done by different researchers mainly with the help of NSS data, the studies were limited in scope in the sense that they covered industrial workers, middle class families and similar economically less affluent groups. | 7

Among urban centres the studies done relate to major cities in India. So far no family budget study has been done for a city like Baroda, despite the fact that ' the

⁶ Marguerite C. Burk, Consumption Economics : A Multi-disciplinary Approach, N.Y. : John Wiley & Sons Inc., 1968, p.171.

⁷ A Description of Some Indian Studies may be found in Chapter Three, review of literature.

urban configuration of Baroda is one of the most important industrial complexes and educational centres, not only in Gujarat but also in the entire western region.⁸ The location of giant industries such as the Gujarat Refinery, Indian Petro-Chemicals, Gujarat State Fertilizers, Heavy Water Project on the outskirts of the city has given rise to the development of various manufacturing and ancillary industries in the city. The existence of the M.S. University of Baroda, the only University in Gujarat State, which still maintains English as the medium of instruction, attracts people from all over India as well as abroad. Baroda, thus continues to attract highly qualified people from other states, giving a cosmopolitan atmosphere to the city.

Since no family budget study has been conducted for Baroda City so far, it was decided to collect data from sample households regarding their demographic characteristics and expenditure on various non-food and food items. Limitations of time, finance and work force imposed restrictions on the scope of the study. It was decided to confine the study to the affluent strata

⁸Baroda Municipal Corporation, A Basic Plan for Baroda, A Perspective for Growth and Structure, Vol. 1, Baroda, 1975, p. 16.

of the society. It is these strata of the society which seem to have been affected most by the rapidly growing city.

Difficult?

The Affluent Group

What does this mean?

This group albeit constituting only a minute fraction of the total population (roughly 1%) exerts nevertheless a dynamic and pivotal role in the functioning of our economy. This segment which contains the bulk of the private sector magnates influences policy decisions of the government directly or indirectly, and along with the public sector determines the progress and welfare of the economy. The consumption and saving behaviour of this group of ' top asset holders ' exert a decisive influence on the production front as well as on the monetary and fiscal policies of the government at all levels. A cross-section empirical study of the consumption pattern of this significant group will yield valuable data and results which could be used for multifarious purposes apart from its contribution to the existing knowledge of economic laws and principles in the area of consumption function. As has been aptly observed by Katona, ' these findings are important because holders of large assets though relatively small in number control a substantial part of the nation's wealth, are much more active traders than

other people, and exert a great influence on the outcome of monetary policy through their reactions to new measures and regulations.⁹

Surprisingly enough very little work has been done in India focusing exclusively on the consumption behaviour of this important group of upper income families of the society, who 'act as fore-runners of changes in demand and consumption.'¹⁰ It is well known that this segment has benefited greatly from the five year plans. An additional interesting feature of this segment, as far as Baroda City is concerned, is its cosmopolitan character, mentioned above. The present study was undertaken to fill this gap in information in the area of budget studies, the relevance and importance of which deserves better recognition.

As a distinct social group in the society, the affluent segment is constantly faced with the problem of maintaining high standards of living expected of them by society. Both in their consumption and saving behaviour striving for a better, varied and higher quality of living

⁹George Katona, The Mass Consumption Society, New York : McGraw Hill Book Company, 1964, p.213.

¹⁰Burke, op.cit., p.109.

is aspired for. Sigelow¹¹ has admirably highlighted some of the characteristic features of the consumption behaviour of families belonging to this group. According to him families in this group will spend only a small percentage of their income on physical necessities, will lay large emphasis on the attainment of intangible elements of security, individual freedom and self-respect and will exhibit a wide range of social contact where both clothing and shelter will be selected with due regard to social demand. Further individual members of the family will be allowed considerable freedom in their personal expenses and will be able to follow a wide range of personal contacts. There will also be adequate provision for the care of health with emphasis on preventive rather than remedial measures. Allocation to reserves will also include sufficient outlay to meet emergencies. In this context it is interesting to note some of the observations of Katona:

Top asset holders are inflation conscious. Their investment policy is consciously directed towards the problem of hedging against inflation.

Top asset holders are interest-conscious..

Top asset holders are tax-conscious. They devote time and energy to finding investments that serve to minimise income and estate taxes.

Top asset holders are concerned with leaving an inheritance to their children.. They are concerned with establishing and preserving a family fortune, ¹²

¹¹Howard Sigelow, Family Finance, Chicago: J. B. Lippincott, 1953.

¹²George Katona, op.cit. pp. 212-13.

Though these generalizations have been made on the consumption and saving behaviour of the American population similar traits may be observed in developing countries like India as regards the affluent group. It would be highly interesting to find out empirically how far the affluent group of our country compares with similar groups in advanced countries, and to identify - which is perhaps more important - the different factors which govern the consumption behaviour of this social group. Data collected through such studies would not only contribute towards satisfying the objectives of this study, but also serve as source of authentic information for further research. Other possible contributions which this study can make have already been outlined earlier.

General Objectives of the Study

Thinking along these lines led to the formulation of the general objectives of the study as follows. The main objective was to investigate empirically the expenditure pattern of a selected group of high income households in Baroda City on the basis of data collected through the administration of an interview-schedule-cum-questionnaire. The data were to be analyzed to present the broad spectrum of household expenditure for various commodities, food and non-food, for this group. The suitability of the various

models of consumption was to be tested and income elasticities in respect of selected groups of items were to be calculated. It was decided to take income (total expenditure) as the principal explanatory variable.

Savings?
Wealth?

The specific objectives of the study were :

- (i) to determine the pattern of expenditure of the group as a whole (expressed in the form of percentages of total expenditure spent on specific goods and services) and patterns of different classes of the group when the group is divided on the basis of total expenditure.
- (ii) to fit Engel curves for food and non-food expenditures (total as well as for specific items) taking total expenditure of the household, size of the household, age of the head and wealth of the household as explanatory variables.
- (iii) to derive income elasticities for food, for non-food and for specific commodities or groups thereof.
- (iv) to determine the nature of the degree of association between the variables, household size, income (total expenditure), age of the head, educational level of the housewife, occupation, food habit and region on the one hand and consumption pattern on the other hand.

Theoretical considerations and the empirical studies of other researchers, which is the subject matter of chapters two and three have influenced the formulation of our hypotheses. These have been presented in a descriptive form, so that the rationale behind each of them is clear.

Hypotheses to be tested

The study attempts to answer the following questions with reference to the consumption pattern of the affluent group :

(1) The ratio of expenditure on a commodity to total expenditure is known as Engel ratio and is an important indicator of consumption level. Engel's law on food, namely that proportionate amount spent on food will decrease with rising income has been found to be true in all empirical studies. This was expected to hold good in our study too. Further it will be of interest to assess to what extent the percentage spent on food and ^{non-}food items differs from those of the lower income groups.

(2) With this urban affluent group one could expect a higher quality of diet in the shape of more consumption of protein and vitamin - rich foods and less of cereals and pulses. In terms of economic relationships it could be hypothesized that with increasing income the proportionate amount spent on fruits, vegetables, milk, milk products, eggs will increase and correspondingly there will be a decrease in the consumption of cereals and pulses.

(3) As a natural corollary of hypothesis one the proportionate amount spent on non-food should show a rising trend. The pertinent question here is : over what items is the

extra allocation of money resources spread? The household's system of values will of course influence the choice of preferences, - one family might be interested in social life, another in travel - but as income moves upwards, one may reasonably expect that with respect to items of expenditure related to social prestige there would be positive association between income and their consumption. Such items of expenditure are first and foremost housing (rent, utilities), then domestic servants and conveyance. It is possible that clothing too figures in this group.

Under the assumption that total income is an indicator of the social rank of the family, while per capita income is an indicator of its consumption level, it was decided to test the hypothesis separately for three categories of income levels, Groups I, II and III, within the present sample of affluent households. (The groups may be termed : less affluent, moderately affluent and highly affluent).

(4) Next to income, family size is an obvious candidate for investigation as a determinant of consumption expenditure, especially food. Ignoring individual variations, children are known to consume less food than adults and similarly women less than men. On the other hand, babies though consuming less, might be consuming more expensive food. The cost of an additional child to the family has been the focus

of interest in some studies. Sreenivasa Iyengar found in his study that family size had negative relationship with milk and milk products.¹³ In the case of items which are relative luxuries for the poorer socio-economic groups, the association will be negative since with increasing family size there will be a switchover from luxuries to necessities. Since the affluent section, however, is not financially constrained to follow a switchover, it may be expected with this group that family size will have positive influence on the consumption of these goods and services.

(5) Age of the head of the household is related to the different stages of the family life cycle. Thus, it is a differential which affects the wants-hierarchy of households for different types of goods and services. In the beginning of the life cycle the demands of schooling, personal comforts (household durables), etc. lay claim to the family's rupee, while at later stages concern for security, assets formation for the benefit of the children etc. predominates. Hence the age of the head of the household, taken as operational variable for the family life cycle, could be expected to have differential

¹³N. Sreenivasa Iyengar, L.R. Jain, and T.N. Srinivasan, 'Economies of Scale in Household Consumption, A Case Study,' The Indian Economic Journal, Vol. XV, No. 4, July-Sept., 1967, pp. 465-477.

effects on the consumption pattern of the affluent households depending on the nature of the goods and services.

(6) The wealth of the household is a key factor which moulds the economic behaviour of the household and has profound influence on the long-term goals of the family. Wealth can have over-riding effect over the negative ^{current} transient effects of income. The consideration of wealth as a factor will take care of the 'permanent income' status of the family. As total expenditure has been taken as proxy for income, some correlation is to be expected between this variable and wealth of the household. Nevertheless wealth could be expected to have positive significant influence on the consumption of items which can be termed as denoting social prestige and involving greater outlay of expenditure, e.g. rent, conveyance etc.

(7) In postwar decades greater attention has been paid to the impact of variables such as region of origin, ethnic background etc. For the current study the variables proposed to be investigated were :

region of origin, dietary habits (vegetarian / non-vegetarian), educational level of the housewife, and occupation of the head of the household.

Regional factor has been found to be a significant factor in food consumption.¹⁴ As our sample consisted of families

¹⁴Devendra B. Gupta, Consumption Patterns in India, A Study of Interregional Variations, Bombay: Tata McGraw Hill Publ., 1973.

from different regions of India, with some, predominantly rice-eaters and some, predominantly wheat-eaters, the consumption of cereals was chosen for assessing the influence of the regional factor. It was expected that this variable would have a rigid hold on the consumption behaviour of the families and migration to a wheat-eating area (Gujarat) would have had no significant influence on the consumption of rice.

Non-vegetarian families are generally held to spend more on food, due to additional expenditure on meat etc. A more interesting question in this context is : does the consumption of animal food involve greater expenditure on other food items, say fruits and vegetables, oil, milk, etc. Are there any significant differences between the food consumption of non-vegetarians and vegetarians, barring meat, fowl, and fish ?

With regard to educational level of housewife one may argue that housewives who have graduated, that is received formal education are apt to display an enlightened attitude towards the nutritional aspect of food consumption. If that were the case then graduate housewives should consume significantly more protein and vitamin rich foods, while housewives with less education including illiterate housewives might be expected to spend more on carbohydrates (cereals and pulses).

for
housewives
with
less
education

Occupation has been found to be a significant factor by Balvir Singh.¹⁵ In discussing the possible influence of this variable on consumption, one has to weigh the effect of two facts, namely that the heads of the households under investigation belong to the white collar category, being mainly engineers, businessmen, lawyers and secondly that they belong to a highly affluent urban group. It is however likely that self-employed professionals (doctors, lawyers, and businessmen) consider themselves to be socially higher than the employed persons. If that were true then households of self-employed professionals would spend more on rent, clothing, conveyance (items indicating social status). The hypothesis that occupation is a determinant of consumption of certain non-food items has therefore to be tested. A similar argument could apply to food items too (sedentary nature of occupation, clerks etc., and occupation involving high pressure work demanding lot of energy).

Scheme of the Work

The results of our survey are presented in this work in eleven chapters in all, of which the first four are of an introductory nature, the remaining constituting our findings

¹⁵ Balvir Singh,
 'Role of Occupational Factors in Household Consumption,'
 Indian Economic Review, Vol.3 (New Series), 1968, pp. 85-110.

and conclusions. After justifying the need for such a study and specifying our objectives and hypotheses in chapter one, we briefly comment in chapter two on some theoretical aspects pertinent to our study followed by a review of earlier studies in the next chapter. Chapter four concerns itself with the design of our study describing the sampling frame and technique adopted, concepts used and methods of analyses employed. We commence presentation of our findings in chapter five with a description of the socio-economic and demographic background characteristics of the sample households. The next chapter brings out the consumption pattern of a typical affluent household in the form of Engel ratios on different goods and services. Chapter seven is devoted to the analysis of the influence of regional, social and occupational factors on consumption on selected food and non-food items. The relationship between commodity preferences and income levels form the subject matter of chapter eight. In chapter nine we deal with the determinants of consumption expenditure of the affluent group with the help of econometric models, and estimates of marginal propensities to consume and income elasticities derived therefrom. Chapter ten relates to the purchase of durables by the sample households within one year prior to the date of the inquiry. The final chapter embodies the summary of our results with some recommendations for further research in this area and with the affluent group.
