

Chapter – 1
Introduction

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Agriculture is an integrated set of activities that farmers perform in their farms under their resources and circumstances to maximize the productivity and net farm income on a sustainable basis. The farming system take into account the components of soil, water crops, livestock, labour, capital, energy and other resources, with the farm family at the centre managing agriculture and related activities. Farming system is related to the whole farm rather than individual elements, it is driven as much by the overall welfare of farming households as by goals of yield and profitability.

Agriculture system is a holistic approach, interrelated of component, matrix of soils, plants, animals, power, implements, labour, capital and other inputs, influenced by political, economic, institutional and social forces. Agriculture system are closely linked to livelihoods because agriculture remains the single most important component of most rural living peoples and also plays an important role in the lives of many people in semi-urban areas. Farming systems involve a complex combination of inputs, managed by farming families but influenced by environment, political, economic, institutional and social factors.

The need of agriculture system approach in the present scenario is mainly due to high cost of farm inputs, fluctuations in the market price of farm products, rich in crops harvest due to climate vagaries and biotic factors. Environmental degradation, depletion in soil fertility and productivity, unstable income of the farmer, fragmentation of operational holdings and low standard of living add to the intensity of the problem.

Before independence, agriculture had played an important role in the process of economic development in India. Agriculture provides food to nation, releases labour, provide saving and contributes to market of industrial goods and enhance foreign exchange revenue. Agriculture is the main sources of national income and occupation at the time of

independence. Agriculture and allied activities contributed nearly 50 percent to national income. Around 72 percent of total working population was engaged in agriculture during that time. This confirms that Indian economy was agricultural based economy at the time of independence. However after independence, the share of agriculture in total national income declined from 50 percent in 1950 to 17.08 percent in 2016-17. But still the agriculture sector is dominant sector and 52 percent of workforce is still engaged in agriculture activities.

Agriculture is the mainstay of about 52 percent population in Haryana with contribution of 16.3 per cent in GSDP of the State. The Haryana quantum of food grain production, which was nearly 25.92 lakh tonnes at the time of inception of the State and it touched to 287.3 in 2016-17 registering a more than six fold increase due to crop intensification and increase in production of principal crops. Rice, wheat, jowar, bajra, maize, barley and pulses, sugarcane, cotton, oilseeds and potato are the major crops of the state.

Cultivators play an important role in the most developed state like Haryana consequently the consumption pattern of cultivators determines the growth of the state. These days every aspects of life are changing very rapidly, so the family budget of cultivators of Haryana is not an exception. The needs and demands of the family are very crucial issues in the contemporary era. In the age of globalization family development depends on income and expenditure.

The allocation of total household expenditure among goods and services in response to changes in prices and income of the household has been the main concern of demand theory. Besides these factors, a number of other factors such as size and composition of household, income, distribution, demographic distribution and socio-psychological factors are also expected to have their effect on the allocation of household expenditure. The price of a good or service, *ceteris paribus*, will have an inverse effect while income of

the consumer has a direct effect on the consumption of that good or service. The effect of changes in price, income and household size are usually measured in terms of price and size elasticity of demand respectively.

The ever increasing interest in demand studies can be attributed to the important role played by the magnitude of income (or total expenditure) and price elasticities of demand for decision making in both free and planned market economies. The planned development requires a balance between the supply of and the demand for these commodities otherwise the successful implementation of development programmes will be hampered.

The changing structure of industry over time depends crucially on the evolution of the elements of consumer's expenditure in response to increasing income while knowledge of price responses is an important element in the formulation of fiscal policy or any other type of economic controls. Thus the usefulness of disaggregated planning or prediction is likely to depend on its correct allocation of consumer's expenditure which is the largest item in the gross domestic product of most of the economies. Apart from eliciting the structure of demand, an important advantage of the utility based, complete system approach to demand analysis is the welfare interpretation of the estimated demand parameters that has allowed significant use of the demand estimates in such diverse areas as expenditure inequality measurement, calculation of true cost of living index, estimation of optimal commodity taxes, and determination of equivalence scales.

Given the level of development, regions differ from each other in terms of consumption pattern. The differences come from various economic, social, political and natural factors. This justifies the expectation of a sizable variation in the consumption pattern with respect to different consumer goods in different regions and between different social groups. A number of researchers have addressed the issue of the consumption pattern

since the formulation of the Engel's law, which states that the share of expenditure on food in total expenditure tends to decline with a rise in income.

Besides income, expenditure, household size is considered in analyzing consumption expenditure. Houthakker (1957) emphasizes that the coefficient of household size comprises to two types of effects, such as specific effects and income effect. The specific effect refers to the effect resulting from increase in the need for various commodities as household size increases, whereas the income effect arises because; a family becomes relatively poorer with as increase in the household size. The specific effect does not move proportionately with household size because of economies of scale in consumption which exists in the large households.

Therefore it hence intensities to analyse the changing pattern of household consumption expenditure under various changing phenomena of the society. For instance, out of household expenditure, consumption expenditure is increasing due to increase in urbanization, breaking up of the traditional joint family system, desire for quality food, lack of time which translates into an increased need for convenience.

1.2 Categories of consumption

Consumption categories are formed mainly on the basis of the commodities involved. Broadly speaking there are two categories: Food and non-food consumption. Consumption to gratify hunger and thirst needs is food consumption. The consumption that is not related to the above but meant for satisfaction of health, education, travel and recreational needs is regarded as non-food consumption. The quality of consumption budget expresses the level of welfare of the household. Food consumption pattern of household is an important indicator of individual welfare and well being in any country.

1.3 Nature of consumption

The dynamic nature of human needs gives consumption a dynamic character. Human needs are always subjected to change. The dynamic character of consumption depends on the nature of the society and economy. Variations in consumption are visible in different societies, as there exists, a difference in environmental, social, economic and cultural contexts. Human wants get transformed as the society grows and in turn cause substantial changes in the outlook of the people towards consumption of commodities.

1.4 Factors affecting consumption pattern

Individual consumers are assumed to be in the best position to judge their own needs, preferences and to make their own choices. It is unbiased to assume that people know what they are looking for and have reasons for their preferences when they choose one consumption pattern over another. Yet millions of people faces too narrow a range of consumptions, which prevents them from enlarging their capabilities. They may not be able to get enough food, may lack health care services or may have little access to transport beyond their own feet. There are many factors causing these constraints on consumption options. Income is not the only one. Other factors include the availability and facility of essential goods and services, information, social barriers and the household setting.

1.4.1 Income

Income gives people the ability to buy nutritious foods instead of eating only their own crops, to pay for motorized transport instead of walking, to pay for health care and education for their families, to pay for water from a tap instead of walking for many hours to collect it from a well.

The increasing dependence of much consumption on private income means that changes in income have a dominant influence on changes in consumption. When income rises steadily

consumption rises for most of the population. But for the same reason, when income decline, consumption also falls sharply, with devastating consequences for human wellbeing.

1.4.2 Social barriers

Income cannot always remove barriers to access to opportunities. This is particularly so when considerations of gender, class or ethnicity limit people's freedom to consume the goods and services they want. For example, people belonging to certain ethnic groups might be denied equal access to education, employment and other basic social services by the state, regardless of how much they earn.

1.4.3 Household decision making

A great deal of household consumption decision making is in the hands of one person—often the mother or the father of the family. Although this may lead to good outcomes, it can also be a source of inequity within the family. The education and background given to children early in life play a critical part in establishing their ability to make good use of the options available for living a full and fulfilling life.

1.4.4 Information

Information is the key to raising awareness of the range of consumption options available and enabling the consumer to decide which choices are best. Without information, there is no way of knowing that goods and services are available in the market, and what services are being provided by the state and are, by right, available to all. Advertising and public information campaigns play an important role in this respect.

1.4.5 Availability of infrastructure for essential goods and services

Many of the most basic essential goods and services like water, sanitation, education, health care, transport and electricity cannot be provided without an infrastructure.

Traditionally these facilities have been provided by the community and then by the state. As markets develop and the technology improves, the services increasingly are being provided by the private sector in areas where profit can be made.

1.5 Factors influencing patterns of household expenditure

Expenditure patterns of households can change over time for several reasons. These include changes in: disposable income, wealth, relative prices, age, health status and consumer preferences (tastes). Patterns of household expenditure can also be influenced by changes in the provision of government services and government social security and other income and tax transfers, and the conditions under which they are provided (such as in the areas of education and health).

1.6 Present economic scenario of Haryana

The economic growth of Haryana has been exemplary since its creation in 1966. The state economy grew at an excellent average annual growth rate of 8.64 percent during the period of (2008-09 to 2015-16), higher than the national average. Though, Haryana is geographically a small state accounting for only 1.3 percent of the total area of the country, the contribution of the state in the national GDP at constant (2004-05) prices has been recorded as 3.63 percent as per of 2015-16.

The growth in GDP of the State during 2015-16 was recorded as 8.7 percent, higher than the growth of 7.11 percent recorded by the Indian economy. During the period of the 11th Five Year Plan (2007-12), the State economy registered the growth of 8.7 percent in spite of the low growth posted in Agriculture & Allied (3.7 percent) and Industry (6.0 percent) Sectors. The Services Sector with the robust growth rate of 12.4 percent recorded during the 11th Plan period acted as the main catalyst for sustaining the economic growth of the State above 8.0 percent.

The same trend in structural transition has been observed in the national economy. The share of agriculture & allied sector in the national GDP has also decreased from 19.0 percent in 2004-05 to 17.32 percent in 2015-16 whereas the share of services sector has increased from 53.0 percent in 2004-05 to 53.66 percent in 2015-16. The share of industry sector in the national GDP has also increased from 28 percent in 2004-05 to 29.02 percent in 2015-16. This underlines a similar major structural shift in the Indian as well as state economy with economic growth becoming more vulnerable to the performance of industry and service sectors and less to the performance of agriculture sector. The general index of industrial production with 2004-05 as base year increased from 145.3 in 2011-12 and 173.0 in 2015-16.

1.7 Cultivators consumption pattern in Haryana

Consumption pattern of the households depends on many factors like assets, level of education, occupation and demographic characteristics. The sources of income in the rural household sector are various. In most of the households the main occupation is not the only source of income and in the cultivator households, more than 50 per cent of the household income originate from other sources. Non-agricultural sources are the main source of income for many households in the Haryana.

In Haryana expenditure on food items, the share of cereal grains, as expected, declined significantly in rural and urban areas, indicating a shift in consumption from cereal grains to other food products. An important feature of the food consumption pattern was the relatively higher expenditure on milk and milk and dairy products. In 2015 these products accounted for 49.44% of the expenditure on food and 50.56% of the total household expenditure was spent on non-food items in rural areas. As a result, the share of these products in the total expenditure on food increased over time same period. Dairy products

have replaced cereal grains as the most important component of food expenditure in both rural and urban areas. Among the non-food items, the clothing and housing claimed 8.41% and 9.39% respectively of the total expenditure

The growth of agriculture has significantly shifted to pattern of household food consumption in favour of livestock products, particularly milk. Other livestock products, such as meat and eggs, have exhibited marginal increases in consumption of national average proportion, primarily because of the strong religious taboos on non vegetarian food. The possession of various household assets by the selected families is an indicative of their financial position and clearly reflects their standard of living.

1.8 Conceptual framework

Household: A group of person normally living together and taking food from common kitchen constitute a household.

Consumption: It refers to the use of goods and services for the satisfaction of human wants. In other words it is the destruction of utility.

Consumption Function: Relationship between aggregate consumption and aggregate income.

Demand Elasticity: Proportionate change in demand due to change in price or income.

Household Consumer Expenditure: The expenditure incurred by a household on domestic consumption during the reference period is the household's consumer expenditure. The household consumer expenditure is the total of the monetary value of consumption of various groups of items namely: i) Food, pan (betel leaves), tobacco, intoxicants and fuels and light, ii) Clothing and footwear; and iii) Miscellaneous goods and services and durable articles.

Total Household Expenditure: The total household expenditure is composed of expenditure of the household on broad group of items.

The results of total household consumer expenditure expressed are broadly classified under (a) Food total and (b) Non-food total.

Value of Consumption: Consumption out of purchase is evaluated at the purchase price. Consumption out of home produce is evaluated at ex-factory prices. Value of consumption out of gifts, loans, free collection and goods received in exchange of goods and service is imputed at the rate of average local retail prevailing during the reference period (30 days).

Monthly Per Capita Consumer Expenditure (MPCE): For a household, this is its 30 day's consumer expenditure divided by its size. A person's MPCE is understood as that of the household to which he or she belongs. For classifying households and persons by MPCE level, MPCE classes were formed. These classes correspond broadly to 5%, 10%, 20%, 30%, 40%, 50%, 60%, 70%, 80%, 90%, 95% and 100% of population.

Groups of Consumption of Items: Results on break-up of MPCE over different items of consumption are presented for 19 broad item groups. These are Cereals, Gram, Cereal substitute, Pulses / Pulse products, Milk and Milk products, Edible oil, Meat Fish / Eggs, Vegetables, Fruits / nuts, Sugar, Salt, Spices, Beverages refreshments and processed Food, Pan Tobacco and intoxicants, Fuel & light, Clothing, Footwear, Miscellaneous goods & services, durable goods.

Durable Goods: Items included here all have a lifetime of one year or more and were distinguished from miscellaneous goods. Consumption expenditure on durable goods includes both expenditure on purchase and expenditure on repair and construction of household durables.

Miscellaneous Goods and Services: This is a residual category covering all items other than food, pan, tobacco, intoxicants, fuel and light, clothing, footwear, and durable goods. It includes expenditure on education, medical care, entertainment, conveyance, rent, and consumer taxes.

1.9 Objectives of the study

The present study has following objectives:

1. To analyze the income and consumption pattern of cultivators in Haryana by their sources.
2. To enquire into the socio-economic factors responsible for the perceived changes in variables over time.
3. To estimate the income elasticity of demand for commodities in Haryana.

1.10 Significance of the study

The available studies on consumption pattern are based on secondary data and concentrate on their educational and occupational structure and deal with its effects on their welfare. While studies done on the consumption expenditure of households for various expenditure classes, little effort has been made to study the consumption expenditure pattern in rural sector. These studies highlighted economic and technical aspects and neglected the socio-economic factors responsible for the perceived changes in variables over time. On the other hand the study on household consumption expenditure pattern is very important as it is related to poverty and standard of living of the society. It is necessary to study the change in pattern of food consumption in today's changing scenario. The analysis of changing consumption pattern over time would help in designing of appropriate policies related to food production and distribution.

1.11 Statement of the problem

The need to study the income and expenditure pattern in developing state like Haryana is felt because development brings a significant change in the size and structure of population, urbanization, attitudes and aspirations of various social classes and in the patterns of consumption. This study aims to examine the income and consumption pattern of the various categories of households. There is existence of large disparities in income and expenditure of cultivators according to size of holdings in Haryana. There is a need now to look at the problem more comprehensively. The outcome of study will help in understanding the income and expenditure pattern of cultivators and the dynamics changes in socio-economic factors of cultivators in Haryana.

1.12 Coverage of data

The study is comprehensive in nature and gives detailed according to agricultural holdings. In these holdings include were irrigated, unirrigated and remaining agricultural holdings were partly irrigated. The holdings have been classified according to various size groups to facilitate group-wise comparison of different inputs and outputs of farm cultivators. The study aims at analyzing sources of income and expenditure of the selected cultivators. An attempt has been made to find out the different sources of income, pattern of domestic expenditure, dietary habits, standard of living and proportion of consumption of goods produced at farm and purchased from outside. Various characteristics of cultivators income is Farm cultivation, Milk and milk products, Interest on capital investment and Income from miscellaneous sources of income. The expenditure made on food and non-food items, annual and daily consumption of food, input and output of milk production and overall financial position of the selected cultivators.

1.13 Rationality of the data

This study is based on secondary data. The major source of data is published annually by Directorate of Economic and Statistical Organisation, Planning Department and Government of Haryana. The source provides farm level information regarding expenditure on various items of consumption and size of families. The study is based on family budget of cultivators in Haryana to analysis the income and expenditure pattern of cultivators covering the data from 2002-03 to 2013-14. This time period is taken due to easily availability of data. Before the time of 2002-03, the govt had not published any reports regarding it. In the time of 2000, the govt. announced the policy of agriculture therefore govt. had to present the data. After 2002-03, the govt released the reports regarding it.

1.14 Organisation of the study

The present study contains seven chapters:

The first chapter presents a brief introduction about income and expenditure pattern, its structure, objectives and significance of the study.

The second chapter deals with the survey of literature. It plays an important role for a researcher in finalization and delimitation of a research problem.

The third chapter presents the data description and research methodology that is being adopted in the study.

The fourth chapter deals with the tabular and graphical analysis and its interpretation. This chapter shows growth of income and expenditure of cultivators in Haryana.

The fifth chapter deals with the tabular and graphical analysis and its interpretation. This chapter shows the trends of income and expenditure of cultivators in Haryana

The sixth chapter deals with the tabular and graphical analysis and its interpretation. This chapter shows the relationship between income and expenditure of cultivators.

Finally seventh chapter explain the major findings, recommendations and limitations of the study.