CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1. Introduction

Society is becoming so commercialised that no person is exempt from this world-wide phenomenon called spending and mounting expenses. The high cost of living has paved the way for an increase in the spending habits of people. An expense refers to the disbursement or spending and it generally has something to do with money. Anyone who lives in the 21st century isn't exempt from having expenditure even just for day-to-day living.

Expenses can either be essential expenses necessary for the survival of a person or non-essential expenses, that aren't really necessary or are considered as luxury expenses. The most common and essential expenses are those spent for food and for the daily subsistence of a person. A person couldn't survive without food and water, so almost all people are forced to spend money on these items. Expenses for housing utilities like water and light are also considered essential expenses because a household couldn't operate efficiently without them. For people on the go, the cost of fuel or travel expense is also considered an essential expense.
because they couldn't go about their daily work without spending for these items.

People work so they will earn money that will be used to pay for their essential expenses. A person who isn't lucky enough to get a good paying job will definitely have no choice but to lessen the budget even for his essential expenses. This means cutting back on his basic needs like food, water and power consumption and even his toiletries.

However, there are some people who earn less but still spend more for their household expenses. These people have failed to manage their finance and they will soon be deep in debt. The key to successful household management is to limit the expenses to the minimum. The expenses of every person differ and the money allotted for each type of expenses depends on the priorities of the person. While each person has a nature of expense, there are other expenses that are necessary to fulfill his various responsibilities in life.

While business enterprises should cut back on their overhead expenses to get a decent margin of profit, a homeowner should keep his household expenses to the minimum to achieve a reasonable savings. Savings advocates however argue that savings shouldn't be the remaining cash after the expenses are deducted from the
total income. It is a truth that savings should be deducted from the total income first and the remaining cash should be the basis of the monthly budget of the person.

1.2. Income and expenditure profile

The average household had an annual income of Rs.65,041 in 2008-09, and an expenditure of Rs.48,902 leaving with a surplus of Rs.16,139 to save and invest. Urban income levels are around 85 per cent more than rural ones (Rs.95,827 per annum versus Rs.51,922 per annum). Since expenses in urban areas are substantially higher (Rs.69,065 per annum in urban areas versus Rs.40,309 per annum in rural ones), the difference in the surplus income (of urban and rural areas) that can be saved or invested is not all that huge in absolute terms. The average urban household saves nearly double that of a rural household (Rs.26,762 per annum in urban areas versus Rs.11,613 for rural areas)\(^1\).

1.2.1. Income by Occupation

Labourers constitute the largest segment of the population, leading a little over 31 per cent of the country’s households; self-employed agriculturists are the next largest segment (30.3 per cent), salaried members account for a little over 18 per cent and the non-agricultural self-employed
account 17.5 per cent of the country’s households. The figures differ for rural and urban areas and according to the cadres held -while the salaried account for just 10.5 per cent of rural households, in urban areas they account for 36.9 per cent. Income levels vary significantly across rural and urban areas, as well as across occupation groups. The self-employed in agriculture comprise the largest group in rural areas, accounting for 41.3 per cent of the population and 42.8 per cent of income-in other words, they are the average rural household. In urban areas, by contrast, this group accounts for just 3.1 per cent of the population and just 2.6 per cent of total urban income-this is despite the fact that urban agricultural households earn nearly two-thirds more than their rural counterparts (Rs.91,133 per annum versus Rs.55,491 per annum)².

1.2.2. Household Expenditure

According to the Indian Financial Protection Survey, apart from the large differences between urban and rural areas in terms of levels of both income and expenditure, there is a big difference in the way this money is both spent and saved. The average Indian household spent about three-fourth of their income on routine and non-routine expenditure in 2008-2009. While rural households spend (on an average)
Rs.18,404 on food items in a year, urban households spend level on food items is Rs.26,858. Rural households expenditure on non-food items is lower– at Rs.14,835 per year--compared to urban households expenditure of Rs.32,273 per year. While non- routine expenditure account for around 13.6 per cent of income in rural areas, the figure is marginally lower at 10.6 percent in urban areas- for the country as a whole, it is 12.2 per cent\(^3\).

Urban households spend around 45 per cent of their income on food, while the figure is around 55 per cent in the case of rural households. There is a large difference in the proportions spent on housing (5.9 per cent in urban areas verses 3.8 per cent in rural areas) and on education (8.7 per cent versus 6.4 per cent). But expenses in other areas like health (4.7 per cent versus 4.6 per cent), clothing (7.1 versus 6.8 per cent) and buying durables (4.9 versus 5 per cent) are not too dissimilar. Among non-routine expenses, expenditure on social ceremonies has a major share and accounts for 52 per cent. Medical emergencies is the next major item with households spending about 27 per cent, followed by large expenses on education (8 per cent) and leisure travel (4 per cent)\(^4\).


1.2.3. Household Expenditure pattern by occupation

As income levels vary across various occupation groups, both expenditure levels and patterns also change dramatically. Households whose main source of income is salaries or wages have the highest annual income as well as the highest annual consumption expenditure. They spend more on non-food items (Rs.33,560 or 55%) than on food items (Rs.27,975 or 45%). The next group of high earners and spenders are households, whose chief source of income is self-employment in non-agricultural activities. Earning about Rs.95,316 per year, these households spend Rs.55,773 of which Rs.29,173 (52%) is spent on non-food items and Rs.26,601 (48%) on food items. In terms of share, food expenses account for 51.1 per cent of all routine expenditure at the All India level rise to 59.2 per cent in the case of households headed by labourers. This fall to 54.4 per cent in the case of households headed by agriculturists and to 45.5 per cent in the case of households where the chief earner is a salary earner.\(^5\)

Expenditure on housing, which is 4.7 per cent at the All-India level, is a much lower 3.8 per cent in case of households headed by the agriculturists. This rises to 5.6 per cent in the case of households headed by the salaried class.
There is little difference in the case of expenditure on health (between 4.4 and 4.8 per cent), clothing (6.7 to 7.2 per cent) or that on durables (4.8 to 5.1 per cent). The share of expenses on transport and education, however, vary significantly.

While households headed by labourers spend just 7.2 per cent of their routine expenses on transport, this rises to 11.9 per cent in the case of the salaried classes. Education forms 5.1 per cent of the routine expenses for a household headed by a labourer and this rises to 9.4 per cent in the case of a salaried household.

There is little difference in what constitutes non-routine expenditure across various occupation groups when it comes to weddings and other such social expenditure. The differences widen when it comes to medical and education expenses. For instance, medical expenses account for 40 per cent of non-routine expenditure for households that derive their major source of income from labour, which is the highest among all groups.

1.2.4. National Savings in India

First, describing the behaviour of the components of private saving, the entire 1960–94 period was marked by an increase in the share of employee savings as a proportion of
unadjusted private disposable income, whereas the analogous measure for corporate saving remained mostly stagnant, picking up only in the mid-1990s. It can be argued that the sharp rise in savings following the nationalisation of banks and vigorous branch expansion beginning in 1969 was spurred by a rapid growth in financial savings in the 1970s. The 1970s were also characterized by a jump in remittances from abroad - mostly from the Middle East - which could have contributed some of the increase in employee savings.

Some physical assets, traditionally preferred as savings tools in India, such as jewellery and gold, are not covered in the CSO estimates. This further increases the rate of employees physical savings in the period, 1992–95, it fell somewhat, reflecting in part a portfolio shift from physical to financial savings. The slight decline in employee physical savings generated some debate in India, especially by 1994, when the decline appeared to be more substantial. One view holds that this decline is a statistical illusion. The Central Statistical Organization (CSO) sets household physical savings exactly equal to employees investment, which in turn is determined residually. In national accounts, domestic investment is adjusted to equal the sum of domestic and foreign savings. Then only investment is adjusted for errors
and omissions. This asymmetric adjustment is advocated on the argument that public and corporate savings data are more reliable than investment data. This might be true in the case of public savings; however, the estimate of corporate savings (and investment) is based on small, not necessarily representative, samples and relies on voluntary responses from enterprises. At any rate, although there are reasons to believe that the figures for private saving, particularly those of household physical savings, are erroneous, it is not at all obvious that measurement error is behind the recent trends⁷.

Employee income and savings must be adjusted to take into account the redistribution of wealth from the public to the private sector due to inflation’s erosion of the value of public debt held by the private sector. Adjusted saving as a ratio of gross disposable income increased by 3 percentage points over 1960–94, while the corresponding unadjusted figure rose by about half as much. There was a steady increase in adjusted private savings over the entire period, except between 1974–82 and 1983–91, when it remained stable at about 14 percent. The unadjusted figures for private savings show a sharper increase, from 12 to 21 percent over 1960–94, as opposed to the adjusted figures, which show an increase from 11 to 16 percent. The unadjusted public
savings rate declined from 3 to 1 percent over the full period, reaching a low of 0.94 percent in 2009.8

1.2.5. Trends in Indian Employees savings rate

The trend of the employees savings rate in India compares favorably to that of low-income countries and countries of the Organisation for Economic Co-operation and Development (OECD) but falls short of that of China and other East Asian countries. In 1965 Indian Employees savings rate was similar to the average of all developing countries. It has since followed a rising trend, surpassing the average employee saving rate of the OECD countries by the late 1980s and gaining about 4 percentage points on the average of developing countries by 2009.

Although strong, the rising trend of India’s savings rate has fallen short of that of East Asian countries, producing a gap between the two of more than 10 percentage points by 1995. The inflation-adjusted median private saving rate appears to be consistently lower in India than in the East Asian or OECD countries, although it has been growing faster than both. For India and other countries, except the OECD countries, the definition of the public sector we use includes not only the central government but also state and local governments and public enterprises.
The OECD’s private savings rate relative to that of India and other countries. While look at the relationship among savings, investment, and growth across countries. Each country relies to a varying extent on savings to finance the investment necessary for growth. Comparing performances on these fronts allows us to make some inferences about the best use of resources garnered through saving. The savings rate in China, for example, was, on average, 70 percent higher than that in India, investment was approximately 50 percent higher, and growth was 100 percent higher. East Asia achieved a growth rate twice as high as India’s with an investment rate that was 34 percent higher and a savings rate that was about 45 percent higher. India’s long-run averages of savings, investment, and growth are similar to those of the OECD countries.

In 1960–82, India achieved its peak savings rate in 1978, when the national savings rate rose to 22 percent. Private savings increased sharply in the second period, 1974–82, by about 5 percentage points. Several factors operated to increase the savings rate in the late 1970s, notably, the end of a decade of vigorous bank expansion and foreign remittances from Indians working in the Gulf area. These changes are also indicated by the fall in the average
current account deficit during this period. Real GDP growth did not exhibit any marked trend relative to the previous period. The national savings rate remained at about 21 percent in the last three periods, despite the sharp increase in the GDP growth rate between the second and third periods, its slight decline in the fourth, and the post-1996 increase. The investment rate remained closely linked to the savings rate, resulting in a small current account deficit throughout 1960–95. These points to an important stylized fact: savings in India depends on national, as opposed to foreign savings.

1.2.6. Savings pattern of Indian households

1.2.6.1 Urban India saves more

Household savings rates in India have always been high. If overall savings rates have picked up in recent years, it is more to do with the fact that government-level dissavings have reduced over time. Survey results reveal that around 81.4 per cent of households at the All-India level save some part of their earnings - the figure is 88 per cent for urban India and 78.5 percent for rural India. Rural households had an average income of Rs 51,922 in 2008-09 and urban ones Rs 95,827. Of this, routine and non-routine expenses added up to Rs.40,309 for rural households. This
means share of surplus income is around 22 percent in rural areas and 28 percent for urban areas. Of the surplus income, around 10-15 percent was invested in financial instruments (except bank deposits) in both rural and urban India. Among all financial instruments, savings in the form of insurance are the highest, beating those in shares/debentures and even those in the post office. While investment in insurance is higher in urban areas (in both absolute terms and relative to overall investments), the trend is the same even in rural areas.

1.2.6.2. Salaried class saves more

Salaried employees comprise just 18 percent of households in the country, but account for the greatest proportion of savings as they have the highest level of income (Rs.108,620 per annum), and the highest level of savings from it (33 per cent). Around 2.7 per cent of salaried households’ tend to invest in shares and debentures- this is a lower 2.3 percent in the case of business households. Around 8.3 percent of salaried households tend to invest in insurance, the highest in any category. Households headed by the salaried allocate more than a fourth of their total investments for paying insurance premium as compared to a
much lower 6.4 percent for purchasing shares and debentures$^{11}$.

1.3. Statement of the problem

Income and expenditure are the main aspects highlighted nowadays as they contribute to the quality of life of the Indian society. Nowadays the slogan “spend wisely” is often promoted and which addresses the importance of economic and systematic spending. The Income level among the society is a main factor which determines the individuals consumption and spending. However income is not the only factor governing spending, but also the other factors like loan and savings contributes to spending behaviour.

The spending pattern is driven by the needs to fulfill the basic necessities of the Treasury Employees. The variations in expenditure and spending among Treasury Employees eventually affect their life style. Economic impact of this life style will exacerbate and widen the income disparity between the different grades of Treasury Employees. Treasury Employees expenditure and income disparity can lead to significant differences in their spending pattern. Treasury Employees tends to increase the spending based on their income in order to improve their quality of life, which leads to a problem study.
According to the above problem statement, the area comprising of Tirunelveli, Thoothukudi and Kanyakumari District will be selected as a research area for the study.

1.4. Objectives of the study

1. To study the socio-economic factors influencing Treasury Employees on income, expenditure and savings.
2. To analyse the income of Treasury Employees.
3. To analyse the expenditure of Treasury Employees.
4. To analyse the savings of Treasury Employees.
5. To find out the factors influencing savings motives of Treasury Employees.
6. To find out the relationship between gender on savings and investment.
7. To offer valuable suggestions based on the study.

1.5 Scope of the study

The present study covers the income, expenditure and savings pattern of Treasury Employees working in Tirunelveli, Thoothukudi and Kanyakumari Districts. As such, there are a total of 335 employees working in the study area.

1.6. Methodology

1.6.1. Primary Data

Primary data are nothing but the first hand information about a phenomenon. For this purpose, a personal investigation is made and
carefully designed schedules are used. As far as this study is concerned, the information obtained through primary data is found sufficient for this micro level study.

1.6.2. Secondary data

Secondary data occupy an important place in every research. These are the information obtained from the published articles, journals, books and administrative reports related to the research from time to time. These secondary data gives meaning and significance to any research work. Any researcher will find it difficult to complete their study if they fail to get adequate secondary data. Hence, a comprehensive study of all the secondary data sources relevant to the study has been explored.

1.6.3. Techniques of analysis

The data collected through the use of carefully prepared schedule are logically sequenced for a mathematical and statistical treatment. The present study is a combination of qualitative and quantitative analysis. However, the researcher feels it necessary to have more quantitative analysis for reaching specific conclusions and for meaningful suggestions. Therefore, the qualitative information collected has been quantified, whenever possible, without affecting its originality. Thus, the available quantitative informations are processed with the
help of some of the intricate and sophisticated mathematical and statistical tools of analysis. Percentage analysis, Trend analysis, Ranking analysis, Tables, Graphs and Diagrams, Factor analysis, Cluster and Wilks' Lambda test, Chi-square test, Canonical correlation, F-test, Anova Test and other statistical tools have been used in the present study.

1.7. Period of study

For this present study, data for a period of nine years has been gathered, from the year 2001 to 2009. Additional data has been gathered according to the need and availability.

1.8. Limitations of the present study

Every research work will have some noted as well as implied limitations. As far as the present study is concerned, the following limitations have been noticed. They are:

1. The time-limit within which the study has to be furnished.

2. As with any survey of this nature, results produced in this report will be subjected to Non-sampling Error: Issues which contribute to the non-sampling errors in the survey include data reporting errors and data entry errors.
3. Moreover, considering that both cash and non-cash expenditure and income are gathered and collection of non-cash income and expenditure may pose some problems.

However, the researcher feels confident in minimising their adverse effects, by taking suitable remedial measures.

1.9. Arrangement of chapters

The present study is coordinated into seven chapters. The chapter on introduction deals with introduction, statement of the problem, objectives of the study, methodology used and the limitations of the study.

In the second chapter an overview is made.

The third chapter deals with the review of related studies.

The fourth chapter deals with the profile of income, expenditure and savings of Treasury Employees.

The fifth chapter deals with the factors influencing savings motives of Treasury Employees.

In the sixth chapter, gender differences among Treasury Employees on savings and investment are dealt.

The last chapter presents the summary and conclusion of the present study.
REFERENCES


5. Ibid., p. 89


7. Ibid. p.56


10. Ibid. p.79

11. Ibid. p. 132