CHAPTER - I

INTRODUCTION

Globalisation refers to the process of increasing economic integration and growing economic interdependence in the movement of goods and services, technology transfer, flow of capital, people and information amongst different nations in the world economy. It is beneficial because all countries have not been endowed by nature with the same productive facilities because of differences in geographical and climatic conditions.\(^1\) It creates more opportunities in terms of large market for trade, large private capital inflows and improved access to technology. The wave of globalisation in recent years has opened a new vista in the fields of productivity, efficiency, consciousness, quality, management and competitiveness.

Globalisation leads to an expanding global economy. It is a process, which tends to increase the interdependence, integration and links between the economies of various nations. Foreign Direct Investment flows (FDI) over the years have contributed to the increased economic integration, globalisation process on a worldwide level. During 1983 – 1990, FDI outflows have grown at the rate of 29 per cent per annum on an average as against the rate of world output (4 per cent) and exports (6 per cent).\(^2\) Globalisation implies a process of internalisation in which companies
gradually and incrementally expend their international involvement. Globalisation is an evolutionary process of increasing involvement in international business operations. Under globalisation the business firms undertake coordinated activities as single entities operating in a single global market economy, rather than a host country basis. Thus, globalisation implies greater intensity of domestic competition from foreign competitors. It indicates a two-sided increase in competition as globalisation also implies the scale and diversity of commitments in foreign markets.

Globalisation is a new evolving paradigm of international business and marketing. It is a process of integration of the world into a single huge market. It implies unification of national markets in evolving a global economy. There are four models of globalisation strategy; they are Multinational strategy, Global strategy, International strategy and Transnational strategy. Globalisation compels formation of regional grouping informing strategic alliances to protect the countries from economical and technological threats and leaving their respective competitive advantage. The signposts of globalisation have effectuated as global consumers, global markets, shorter life cycles for new technologies and products, homogenization of markets, decreasing trade barriers and increasing openness, decreasing costs of transportation and communication. Such dynamism of global economy has made it imperative for the business firms to adopt a global dependency of the nations when many of the items
consumers need and want are produced in different countries rather than locally.

Economic openness does not simply confine to trade flow, investment flow and financial flow. It also extends to flows of services, technology, information and ideas across national boundaries, but the cross-border movement of people is closely regulated and highly restricted. Economic interdependence is asymmetrical. There is a high degree of interdependence among countries in the industrialised world. There is considerable dependence of developing countries on the industrialised countries. There is much less interdependence among countries in the developing world. Economic integration straddles national boundaries as liberalisation has diluted the significance of borders in economic transactions. It is, in part an integration of markets (for goods, services, technology, financial assets and even money) on the demand side and in part an integration of production on the supply side.

It is essential to recognize that economics provide a critical but limited perspective on globalisation which is a multi-dimensional phenomenon. It extends much beyond the economy to polity and society and it would be no exaggeration that the whole is different from, possibly greater than, the sum total of its parts. The multiple dimensions namely, political, social and cultural, deserve mention.
In the political dimension, the momentum of globalisation is such that the power of national government is being reduced, through incursions into hitherto sovereign economic or political space, without a corresponding increase in effective international cooperation or supra-national government, which would regulate or govern this market-driven process. Simply, there is a mismatch between economies that are global and polities that are national or local.

In the social dimension, a market economy may be seen as a necessary, indeed desirable, attribute of globalisation but its creation of a market society may not be a desirable outcome. If the pursuit of material well-being becomes dominant factor for some an exclusive objective, the culture of materialism or simply the quest for money, might spread to all spheres of life. The norms and values which are the foundations of civil society could be eroded. Social norms and social institutions so essential for the market economy could be weakened.

In the cultural dimension, the global spread of cultural impulses is at least as important as that of economic impulses. The culture of the young in cities everywhere, across the world is globalised, manifest in jeans, T-shirts, sneakers, jogging, fast foods, satellite television and internet. Consumerism is indeed global. Even corruption and crime have become similar everywhere. In all this, the communication revolution and the electronic media have played a key role. But modernity and tradition do not always
merge together. Global integration sometimes accentuates divides within countries, as ethnic, cultural or religious identities capture those excluded from, or alienated by the process, which could create conflict in societies.

At first sight the link between globalisation and food intake appears to be rather remote. However, its influence can be substantially high, although it works mostly through employment, incomes, prices and the market influence on food preferences. Globalisation means bringing the domestic economy closer to the international economy in many ways. It is a consequence of liberalisation and decontrol. The rationale behind liberalisation and globalisation was to bring competition and efficiency into the economy. They are part of structural reforms. Change in the existing structure is expected to contribute to efficiency in the long term and lead to absorption of labour, increase in incomes and overall prosperity.

One of the expected impacts on dietary patterns relates to higher incomes. The consumption pattern shifts away from cereals and towards more expensive protective foods. The second expected impact is the shift towards more processed foods. Third is the market influence of popular fast foods promoted through advertising by transnational corporations. Changes in the dietary pattern in turn influence the nutritional status of the population. Some effects such as fewer cereals and more protective foods in the diet can improve nutritional status, while a shift towards high-fat, high-sugar snack foods may lead to obesity and chronic diseases.⁵
Another adverse impact may be displacement of the poor by structural reforms. This group experiences lower affordability and a reduced calorie intake leading to growth disorders, such as stunting. A more severe impact may be on higher infant mortality rates and lower life expectancies.

The impacts of globalisation differ from country to country, and between and within communities, depending upon the losers and winners in the process of change.\textsuperscript{6} It is difficult to trace these impacts in a sequential manner and to apportion total impacts between globalisation and other forces at work in the economy. Reasons for the sedentary lifestyles of middle-class and upper-class urban workers, and deterioration of the low income diets of rural migrants can be found elsewhere in the pattern of economic growth, not necessarily related to globalisation.\textsuperscript{7}

1.1. World Level Consumption Pattern

World level consumption is undermining the environmental resource base. It is exacerbating inequalities. And the dynamics of the consumption-poverty-inequality-environment nexus are accelerating. If the trends continue without change not redistributing from high-income to low-income consumers, not shifting from polluting to cleaner goods and production technologies, not promoting goods that empower poor producers, not shifting priority from consumption for conspicuous display to meeting basic needs today’s problems of consumption and human development will worsen. The real issue is not consumption itself but its patterns and effects.
Inequalities in consumption are stark. Globally, the 20 per cent of the world’s people in the highest-income countries account for 86 per cent of total private consumption expenditures the poorest 20 per cent a minuscule 1.3 per cent. More specifically, the richest fifth are consume 45 per cent of all meat and fish, the poorest fifth 5 per cent, consume 58 per cent of total energy, the poorest fifth less than 4 per cent, have 74 per cent of all telephone lines, the poorest fifth 1.5 per cent, consume 84 per cent of all paper, the poorest fifth 1.1 per cent and own 87 per cent of the world’s vehicle fleet, the poorest fifth less than 1 per cent.

Chart No: 1.1

Share of World’s Consumption, 2010

Source: World Bank Development Indicators, 2011

Nationally representative surveys in India, for example, indicate a steady level of consumption on only 120 – 140 gm per capita per day with
about another 100 gm per capita from pulses. In China a country that is undergoing rapid economic growth and transition, the amount of fruits and vegetables consumed has increased to 369g per capita per day by 1992. At present, only a small and negligible minority of the world’s population consumes the generally recommended high average intake of fruits and vegetables. In 1998, only 6 of the 14 WHO regions had an availability of fruits and vegetables equal to or greater than the earlier recommended intake of 400 g per capita per day.

**Chart No: 1.2**

**Inequality of Consumption, 2010**

Source: World Bank Development Indicators, 2011

Breaking that down slightly further, the poorest 10 per cent accounted for just 0.5 per cent and the wealthiest 10 per cent accounted for 59 per cent
of all the consumption. The increase in urbanisation globally is another challenge. Increasing urbanisation will distance more people from primary food production and in turn have a negative impact on both the availability of varied and nutritious diet with enough fruits and vegetables and access of the urban poor to such a diet. Investment in urban horticulture may provide an opportunity to increase the availability and consumption of healthy diet.

In 2000, the global annual average per capita vegetable supply was 102 kg, with the highest level in Asia (116 kg) and the lower levels in South America (48 kg) and Africa (52 kg).

1.2. Consumption Pattern in India

In India the surveys carried out by the National Sample Survey Organisation (NSSO), set up in the Department of Statistics of the Government of India in 1950, provides data on time trends and interstate differences in food consumption patterns. NSSO collects data on various facets of the Indian economy through nationwide large-scale sample surveys to assist in socio-economic planning and policy making. The NSSO has been carrying out Consumer Expenditure Surveys quinquennial since 1972-73 (27th, 32nd, 38th, 43rd, 50th, 55th, 61st and 68th rounds of NSS, at roughly 5-year intervals). A two-stage stratified sampling design was used and at the household selection stage those belonging to the affluent section and others were sampled separately. This survey provides information on consumption expenditure on food and non-food items.
Consumption expenditure of food items on per capita and per consumption units are provided using two reference periods of 7 and 30 days immediately preceding the day of the survey. The survey is carried out in sub rounds covering the four seasons. The results presented in the report are based on the 30-day reference period. As part of these quinquennial surveys data on monthly per capita expenditure on food consumption at the national and state level are collected. The eighth of such surveys was carried out during July 2011 - June 2012. The survey covered all the States and Union Territories (UT’s) in the country. The data were collected from a sample of 79,298 rural and 45,346 urban households spread over 7,999 villages and 4,602 urban blocks respectively. The number of persons surveyed was 4,03,207 in rural areas and 2,06,529 in urban areas.

NSSO provides data on consumption expenditure on food and non-food items, Average quantity of consumption of different foodstuffs per 30 days, food security at the household level, per capita and per consumption unit consumption of calorie, protein and fat per day, percentage of total intake of protein and calorie from different groups of food item, distribution of households and individuals by calorie intake level and cross-tabulations of the above by monthly expenditure classes at national and state levels in urban and rural areas. NSSO surveys provide time-series data of expenditure on food and non-food items in different income groups, residence (rural & urban) and state. Taking into account the cost of food in
the corresponding year, NSSO computes and reports household level of consumption of different food items.

The dietary data from NSSO, though strong on sampling design, sample size, explicitly stated estimation procedure, national coverage and length of reference period (7 and 30 days) has a potential shortcoming namely, the reliability and validity of data collected on consumption expenditure by a single interview with a reference period of 30 days. Another major problem is that while it captures expenditure of household on food items and derives household consumption of foodstuffs, it does not provide any insight into the critical intrafamilial distribution or food consumption of individuals.

Consumption of a commodity is influenced by a number of factors, of which income is the most important one. Consumption function which shows the relationship between consumption expenditure on an item and an income of a household or an individual holds an important position in applied and theoretical economics. A statistical study of the empirical relationship between income and consumption of commodities is essential for related policy measures. If this relationship is known with some precision and certain realistic assumptions are made about the future, it is possible to predict the demand of commodities at a future date.
Statistical studies on consumer behaviour have become popular because of their important role in bringing out the relationship between income and expenditure.

The main objectives of economic planning in all the under developed countries is to achieve a rapid increase in the real income of individuals. The aggregate level of consumption in any economy depends on the aggregate level of disposable income of the people. A rise in the real income of the people usually leads to a rise in consumption. However, the level and pattern of consumption are influenced more by the manner in which income is distributed than by mere level of income of the individual. Therefore, it is essential that for a meaningful economic development, there should also be a proper distribution of income that is equitable in nature.

In recent times, this criterion of income distribution has gained attention, both as an object of study by development economists and as an explicit policy concern, in many development plans and projects. The emphasis on equitable distribution of income or economic equality is essential to arouse the necessary enthusiasm among the people to put in their best efforts to ensure larger production as it ensures an equitable share, whenever an increase takes place in the national output. Thus, it serves as an incentive to the people to be more productive and thereby contributes to a higher rate of growth.
The determination of magnitude and direction of future demand requires knowledge of many of factors such as price, population, consumer behaviour and income. In general an analysis of income and consumption pattern of an individual or a country reflects the economic status or standard of living of that individual or the people of that country. Studies on income and consumption pattern of a particular group, region or nation reveal the development, socially and economically, of the particular group, region or nation.

As the level of income influences the level of consumption expenditure, the level and pattern of aggregate consumption influences very much in turn the level of aggregate income. Changes in the consumption spending also important factors in determining the level of income and employment in any country.

“Consumption is the rudimentary principle and concept around which the entire economic science clusters.”

It is the basis for all the economic activities like production, exchange and distribution. It is the beginning and end of all economic activities. The study of consumption expenditure, therefore both in total and in composition, has always been the major concern to the economists.

Neo Classical economics sees the delivery of individual consumption as the main object of the economic system, so that the efficiency with which
the economy achieves this goal is the criterion by which alternative systems, institutions and policies are to be judged. Within a capitalistic economy, such consideration leads to an examination of the relation between the prices and consumption behaviour. Studies of theoretical development and empirical analysis have been major continuous activities since the middle of the last century.

In modern times it has been recognized that the study of public finance and taxation depends on knowledge of how changes in price affect social welfare and individual behaviour. The recent development of optimal tax theory and tax reforms analysis has placed additional demands on understanding the link between price, expenditure, income and welfare. In the last fifty years, aggregate consumption has become as much an object of attention as its composition. In spite of common theoretical structure, there has been considerable division of labour between macro economists, whose main concern has been with composition and with the study of effective prices on demand. The interest of macro economics reflects both long term and short term interests. What is not consumed is saved, saving being the thrift and the basis for capital formation so that the determinants of future growth and prosperity.

Aggregate consumption accounts for a large share of national income, typically more than three quarters, so that fluctuations in the behaviour of consumption shocks have important consequences for output, employment
and the business cycle. Since 1930 there has been a continuous flow of theoretical and empirical developments in consumption function research and some of the outstanding scientific achievements in economics have been made in this field.

1.3. Meaning of Consumption

Consumption is a common concept in economics, and gives rise to derived concepts such as consumer debt. Generally consumption is defined in part by comparison to production. Consumption is an essential economic activity. John Maynard Keynes, describe consumption as a function of the aggregate disposable income. Consumption means the satisfaction of one’s want by the use of commodities and services. When a commodity is used, one really uses its want-satisfying quality of utility.

Consumption plays an important role in economics. Various economists have defined consumption in their own way. According to products employed “consumption is the process which involves destruction of utility and not destruction of matter.”

According to Prof. Meyer “consumption in its broadest sense, means the use of economic goods and services in the satisfaction of human wants.” Meyer terms the use of both goods and services as “consumption”.

According to certain economists “Consumption is the direct and final use of goods in satisfying the wants of human beings.” Consumption provides satisfaction of different degrees to different persons. Consumption
implies the satisfaction of human wants by the use of goods and services. Therefore consumption can be defined as:

1. To make use of any commodity or service for the satisfaction of one’s wants is called consumption.

2. Consumption means destruction of utility.

1.4. Meaning of Consumption Pattern

The concept of “Consumption pattern” is omnipresent in sustainable development literature since its appearance is generally left undefined as if it is not necessary to be more explicit about it.

Consumption pattern is that aspect of a life style or livelihood that relates to the nature and amount of the different goods and service that the households consider as adequate for fulfilling their needs. Briefly stated, if a lifestyle can be defined as the manner of living that reflects a household’s values and attitudes, a consumption pattern is the relation to goods and services that characterize that life style.

1.5. Demonstration Effect on Consumption

The propensity of a family to consume depends upon two factors:

a) its income,

b) The level of income and the consumption of neighbours.
If the income of a family increases, the tendency to spend the additional income on consumption will also increase though not probably in the same ratio. This is what Engel also found in Germany in the nineteenth century, from the study of family budgets and this is what Keynes called the consumption function. The propensity to consume therefore depends upon the size of income of the family.

It is also true that the consumption pattern of one family depends upon the level of income and consumption patterns of other people in the locality. If one family in the locality acquires a T.V, the other families too will acquire one soon, and this will be true in the case of refrigerator, car, washing machine, better cloths, better education and the like. There is a tendency among people to imitate consumption patterns of others and this tendency is known as the Demonstration Effect. As Ragner Nurske\textsuperscript{11} puts it, when people come in contact with superior goods or superior pattern of consumption with new articles or new way of meeting old wants, they are apt to feel after a while a certain restlessness and dissatisfaction. As their knowledge is extended, the propensity to consume is shifted upwards.

James Dussenburry, the famous American Economist popularized this concept known as Dussenburry Effect. It may be defined as the tendency among people to emulate the superior consumption habits of others, resulting in the consequent upward shift in the consumption of the people.
1.6. Importance of the study of Consumption Pattern

Studies on consumption pattern bring out the relationship between expenditure and consumption. These studies throw much light on various consumption aspects which enable the policymakers and planners to formulate appropriate policies in the field of public expenditure, public distribution and other facilities provided by the government which should reach the people who are actually in need of them. This is one of the essential tools which help the government to reduce inequality among the different sections of the community.

Such studies are also used to test the validity of economic theories and laws like the Engel’s law of Family Expenditure. Various related studies undertaken at different times and among different income groups reveal conclusively that the average per capita consumption expenditure does change fairly regularly with income.

1.7. Scope of the present study

The consumption pattern is different for different classes of people. The low income group may spend almost all its income on necessaries, while the very high income group may spend a major portion of their income on luxuries.

The present study represents an attempt to examine some of the factors like India’s Total Final Consumption Expenditure, Gross Domestic
Product, Net Domestic Product, Ratio of Agricultural and Non-agricultural income, food expenditure and non-food expenditure, aggregate consumption for different groups of commodities, prices and per capita expenditure. In this study, the researcher has tried to analyse the consumption patterns in post-reform and pre-reform periods of India.

1.8. Significance of the present study

The present study represents an attempt to examine some of the factors like consumer behaviour for different groups of commodities, prices and per capita expenditure. In this study, the researcher has tried to analyse the impact of globalisation on consumption patterns in India.

The first step in this study is to examine the trend and pattern of Total final Consumption Expenditure and Gross Domestic Product in India. This is followed by an analysis of Average Propensity to Consume and Marginal Propensity to Consume.

1.9. Statement of the problem

All over the world the economists are interested in observing the impact of globalisation on the emerging economies like in India. Consumption function is one of the basic factors which measures the impact of globalisation systematically because it is interlinked with the other significant factors like Gross Domestic Product, Net Domestic Product prices and Percapita Expenditure. In addition it draws the attention of the
consumption function of different commodities like food and non-food expenditure during and after globalisation.

Even within the country there is a divided opinion among the economists regarding the impact of globalisation in India. In order to find an answer for this research question whether globalisation had the positive or negative impact on Indian economy, the present study analyses the impact of globalisation on the consumption function in India. The study is based on the data over 30 years from 1980 to 2010 (i.e.) the period before and after globalisation.

The present study is different from earlier studies in the following ways. The researcher attempts to measure the shift in the consumption function by using dummy variable model and analysing the impact of globalisation on consumption.

1.10. Objectives of the study

The present study is based on the following objectives:

1. To analyze the trend in Total Final Consumption Expenditure and Gross Domestic Product of India before and after globalisation,

2. To analyze the percentage share of food and non-food expenditure in Total Final Consumption Expenditure of India in the same period,
3. To measure the influence of income distribution variable, viz, ratio of agricultural income to non-agricultural income on aggregate consumption of India before and after globalisation,

4. To measure the shift in the consumption function’s intercepts and slope of real per capita consumption, food and non-food expenditure functions.

5. To find out the impact of globalisation on Total Final Consumption Expenditure of India and the measurement of shifts in the intercepts of real per capita consumption, food and non-food expenditure functions.

1.11. Hypothesis of the study

Based on the above objectives two hypotheses have been framed. First hypothesis is based on the difference between aggregate income and aggregate consumption expenditure of India.

\[ H_0: \] There is no significant difference between aggregate income and aggregate consumption expenditure of India before and after globalisation.

\[ H_1: \] There is significant difference between aggregate income and aggregate consumption expenditure of India before and after globalisation.

Second hypothesis states that globalisation increased the per capita consumption expenditure in India.
H₀: There is no significant difference in the per capita consumption expenditure in India before and after globalisation.

H₁: There is significant difference in the per capita consumption expenditure in India before and after globalisation.

1.12. Limitations of the study

The present study is confined to India only and the conclusions drawn are applicable only to the area under study and under similar situation. The study has been done only using the data on total final consumption expenditure, gross domestic product, per capita consumption expenditure, food and non-food expenditure and agricultural and non-agricultural income published by the National Sample Survey Organization (NSSO) and it deals with the impact of globalisation on consumption pattern in India only.

1.13. Plan of the study

The research study consists of seven chapters. The first chapter consists of general introduction to the topic and explanation of the title of the study. It also gives the importance, scope, objectives, hypotheses and limitations of the study.

The second chapter deals with the review of various related studies on consumption patterns and theoretical background.

The third chapter describes broadly the methodology adopted in this study in four sections. The first section deals with the description of the area
of study. The second section discusses the data collected from the National Sample Survey. The third section explains the meanings of various terms and concepts used in this study. The last section deals with various statistical tools used in the present study.

The **fourth chapter** deals with the results of trend analysis on total final consumption expenditure and gross domestic product, trend analysis of Average Propensity to Consume and Marginal Propensity to Consume and Average Propensity to Save and Marginal Propensity to Save are also discussed in this chapter. In addition it also deals with the result of percentage share of food and non-food expenditure in total final consumption expenditure and also the influence of income distribution variable ratio of agricultural income to non-agricultural income on aggregate consumption of India before and after globalisation.

The **fifth chapter** contains the result of an econometric study on consumption expenditure and net domestic product. It measures the shift in the consumption function’s intercepts and slope of real per capita consumption, food and non-food expenditure functions.

The **sixth chapter** contains the main result on impact of globalisation on total final consumption expenditure.

The **final chapter** presents the summary of the findings, suggestions and conclusion of the study.
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