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Savings and Investment Behavior of Rural Household in Salem

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Abstract
Saving is an important macroeconomic variable to be deliberated under the purview of the economic arena on an individual as well as household basis. Countries like India, income standard is almost uncertain and leads to more consumption rather than saving which has now been a fundamental problem. If the saving is low, then the speculation will also be low leading to low capital formation. The present survey analyzes the determinants and patterns of saving behavior in rural household of Salem. The marginal propensity to consume is more rather than the marginal tendency to save. The saving determinants are analyzed empirically by a linear regression method. The income, level of expenditure, consumption pattern and saving behavior is taken as the criteria for depicting the samples. The present study disclose that the rural households varies in terms of the distribution of income and occupation i.e. in other terms, the lowest income groups (the agricultural labors and the non- agricultural labors) have the highest marginal propensity to consume which leads to lowest marginal propensity to save as compared to the other occupational teams. The survey finds that most of the countryside households have low educational status which is resulting in less awareness of the people towards the benefits of saving. They are even hasty towards their health standard as the consumption of local liquor is very prominent in these households which in a way or the other decorating the health as well as the financial condition of these households.

Keywords: Savings, Agriculture, Rural – Urban, MFIs, GDP

1. Introduction

India is a developing country where, there has been a consistent increase in the national saving rate after the independence period, though with considerable fluctuations from year to year. In international standpoint of view, India has had a high saving rate compared to other developing countries, except those in East Asia. To study on rural savings in India need to look into four aspects namely the determinants of savings, the composition of savings, the methods of measuring savings, and the pattern of saving. The present study tries to analyze the determinants and pattern of saving behavior in rural household in Salem. Saving is an important variable for every country to be studied for the economic growth and development of any country. Saving is an important macroeconomic variable to be deliberated under the purview of the economic arena on an individual as well as household basis. According to classical economists like Adam Smith, David Ricardo and J.S.Mill, "saving is an important determinant of economic growth". Saving components can be based on an individual or on household basis which proves to be the well being. As for an individual saving becomes the cushion for the future's intercourse of the unforeseen and upcoming as well as the uncertain circumstances of life. Saving is the part of the income earned by the individuals. For the higher economic growth for the country, marginal propensity to save should be higher but it helps to the multiplier process.

The determinants and patterns of saving differ from rural to urban region. In rural areas, the marginal propensity to consume is more rather than the marginal propensity to save which seems to be vice-versa in urban areas where the marginal propensity to save is more than that of the marginal propensity to consume. According to Lewis (1954), the central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing four or five percent of its national income changes into an economy where voluntary saving is running at about twelve to fifteen percent or more of the national income. According to Rao (1980) saving constitutes the basis for capital formation, and capital formation constitutes a major determinant of economic growth.

In the developed countries, the income is generated at a higher rate which encourages people to have more savings which opines to more investments leading to more capital formation. But in a country like India, the income standard is almost uncertain and leads to more consumption rather than saving.

On average East Asia saves more than 30 percent of gross national disposable income while Sub-Saharan Africa saves less than 15 percent. Regional differences have been rising: over the past three decades saving rates have doubled in East Asia and stagnated in Sub-Saharan Africa and in Latin America and the Caribbean. By a hike in aggregate saving, the social value of saving can exceed its private value in many developing countries, mainly in the poorer countries with India to be one of them. In India, as in many developing countries, most households are poor and do not save. Here, there is a requirement of mobilization of rural saving for financial growth. Aggregate saving in any economy depends on a number of determinants. In the Indian economy, the household sector contributes a lion's share of the total saving which needs to be stepped up.

Salem is positioned in southern India. It is bounded on the south by Tamilnadu, Salem is the district headquarters and other major towns in the district include Mettur, Omalur and Attur. Salem is surrounded by hills and the landscape dotted with hillocks. Salem has a vibrant culture dating back to the ancient Kongu Nadu. As a district, Salem has its significance in various aspects; it is known for mango cultivation, silver ornaments, textile, sago industries and steel production. As of 2011, the district had a population of 3,482,056 with a sex-ratio of 954 females for every 1,000 males. Salem is one of the biggest cities in Tamil Nadu.

The present study focuses to examine the main determinants of the saving pattern in the rural population of Salem especially in the context of aggregate saving behavior. India is fast losing its status as a country of big savers. According to RBI Annual Report (2011), “The persistence of inflation at a high average rate of about nine per cent during 2011-12 further atrophied to stave off the downward pressure on their real consumption or lifestyle”. The changing pattern of Indian household savings is the result of a number of factors. The household savings in India has experienced a variety of changes over the past one or two decades as due to the changes in lifestyles and consumption models in a developing country like India. Indian economy has noticed a lot of rises and falls in the household savings rate. This might have resulted due to the variable composition of savings over the passage of time.

Today’s saving mainly in rural areas consists of the assets in form of animals, metals and also due to some awareness about the saving institutions available nearby encourages people to save as to opt the rate of interest from the amount saved from time to time. The sources of income of the households are accounting to be diversified. In most of the households, the only source of income has been resulting in originating from various other sources also. From due to these varied scope of income generated, the saving portion is also generated to some extent.

1.1 Types of Savings

The types of saving are mainly based on the income available to the household, firm and corporate bodies. The saving type can be classified on the basis of the sectors accounting for the saving distribution. It can be broadly classified under three headings namely,

- Household sector saving,
- Private sector saving and
- Public sector saving.

The categories of savings are discussed below:

1.1.1 Household Sector Saving

The savings done or accrued by the individual members in a household consists of household sector saving. The household saving contributes to a larger share in the Indian economy which comprises of the individuals saving behavior at a larger scale including the financial as well as the financial assets. The individuals at the household level make a share to the national income computation of a country.

1.1.2 Private Corporate Sector saving

The savings made in the private owned corporations are called as the private sector corporations. The private corporate sector comprises of

- Non-government non-financial companies,
- Commercial banks and insurance companies working in private sector,
- Co-operative banks, credit societies and non-credit societies and
- Non-banking financial companies in the private sector.

1.1.3 Public Sector Saving

The public sector’s savings are constituted into (i) government savings, and (ii) savings generated by the public sector undertakings in the form of internal resources. One process of estimating public sector saving is to scrutinize the relationship between public savings and the consolidated returns shortage of government which is an alternative measure of government savings.

1.2 Nature of Saving

Savings can be known as the cash or physical products set aside for future use. People in rural and other low-income communities can save when they are guided and encouraged by the Government and financial institutions. The people in rural region, savings are made through traditional credit rotation groups, or purchase of domestic animals (goats, pigs, chickens or cows). Gradually, the traditional way of saving in rural region has been abolished; the people shifted their saving pattern to save in form of physical assets, like gold, land and durable goods and financial assets like shares, stocks, and bonds.

The Micro Finance Institutions (MFIs) and micro-enterprises are playing a major role in recent years in rural region by encouraging the people to save more. MFIs need to inject capital or funds which may be the owner's of money or loan. When a loan is used, it is someone else who has done the saving. Micro enterprises, like other businesses, convert savings (of the owners and of others) into investment, in the creation of wealth. Variations in the saving pattern is mostly found 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 saving. In low-income communities, the ability to save is low and often is in cash or kind. Saving in cash is cheap and convenient. Variations in saving is visible in different

communities as there exists difference in income levels, consumption pattern, awareness of the saving benefits, family size, investment opportunities, etc. Human attitude towards saving has been changed through decades as in the remarkable growth in the society.

1.3 Determinants of Savings Rate

The rural household's decision to consume present or in the future is influenced by the current or permanent income. The significance of 'incentives' as a determinant of savings is that although there has been a long footing fright about the effects of the level of per family income upon proportion of income that is saved, there has been no comparable concern about the effect of variation in the relative prices of new income streams upon savings and investment. There are number of factors which determine the saving rate in an economy.

1.3.1 Real per Capita Income

The real per capita income of the individuals proves to be a foremost determinant of saving rate. When the income of an individual increases the consumption pattern improves which in the sense some part is left out which goes to saving as to secure one's unforeseen future. As rightly pointed out by the neoclassical growth model (Solow, 1956) that higher savings rate will lead to higher steady situation levels of income (or output) per capita, while the endogenous growth theory models imply that higher savings rates would lead to higher levels of growth of income per capita. Thus in common, both the variables should be well thought-out. The real (in stable domestic prices) Gross Domestic Product (GDP) per capita is used as an estimation of real income. These two indicators rightly give an outlay to the saving pattern.

1.3.2 Demographic Features

The saving can be most often determined by the demographic features like the sex ratio, the age distribution, and the rate of dependant population. Saving is highly determined by whether the female's contribution towards saving is more or the male is contributing to its highest level and again if the problem of the age distribution in the family contributing to the saving is optimum then the saving rate is determined in a different perspective. Aggregate savings is exaggerated by the age distribution of the population if the carve up of dependent population is high than the income earning groups, the savings ratio will be low. According to the life-cycle hypothesis a larger working population next of kin to the older population contributes to raise the savings rate. In an instance if the income earning population is comparably high to that of the dependant population then the saving rate will experience a hike which is in some way will lead to income propagation in a country in a long term basis.

1.3.3 Share of Agriculture to GDP

India is an agriculture dominant country where most of the people are engaged in agricultural activity in which the concentration of the rural population is more. As because of some way or the other the production level decides the fate of the individual farmers which sometimes experiences a high production level will have more income and will automatically encourage the people to save more and if the production is less than the income will have a fall resulting in a sharp fall in the saving rate. The rural or agricultural sector of the economy can display different savings behavior than the urban/industrial sector, especially in the case of developing countries, with large agricultural sectors. The agricultural sector could have a different savings rate due to a lower access to the banking system and because of lower and unbalanced incomes in the agricultural sector and sometimes due to lack of access to other financial institutions nearby also determines the saving rate. Proper awareness and education is needed to have a proper understanding of the saving rate of a country with a remarkable share in the GDP.

1.3.4 Real Interest Rates

Every banking institution including other financial institutions encourages people to save with an expectation of giving a considerable amount of rate of interest on the saving amount. This rate of interest determines the saving rate of the individuals on a view to encourage people towards saving. When the rate of interest is high people are more interested to save rather than invest and when the rate of interest is less people are less inclined towards saving rather than they are likely to invest more in an expectation of getting more rate of return. There is a negative and an inverse relationship between savings and rate of interest. Critically, an increase in interest rates will have an indefinite effect on savings because of a positive substitution effect towards future consumption and a negative income effect due to increased real proceeds on saved wealth.

1.3.5 Social Barriers

The society we live in is full of constrains likely due to variations and distinctness in the age, sex, culture, tradition, social taboos, and many more which by playing an important role determines the saving behavior of any region, state or country. Income plays a major role in identifying the saving distinctness among different groups but income cannot always remove all the barriers for availing the opportunities because of the variations offered in the context of culture, gender, class etc. People belonging to diverse ethnic groups can have a refutation to the equal admittance to education, employment, and other basic services by the social and financial institutions as well as the investment opportunities available.

2 Salient Demographic Features and Social Scenario of Salem

Salem is one of the major states of the Indian Union, According to2011 census, Salem district had a population of 3,482,056 with a sex-ratio of 954 females for every 1,000 males, much above the national average of 929. A total of 344,960 were under the age of six, constituting 180,002 males and 164,958 females. Scheduled Castes and Scheduled Tribes accounted for 16.67% and 3.43% of the population respectively. The average literacy of the district was 65.64%, compared to the national average of 72.99%. The district had a total of 915,967 households. There were a total of 1,694,160 workers, comprising 247,011 cultivators, 396,158 main agricultural labourers, 132,700 in house hold industries, 785,161 other workers, 133,130 marginal workers, 9,993 marginal cultivators, 58,052 marginal agricultural labourers, 8,803 marginal workers in household industries and 56,282 other marginal workers. Sex Ratio in Salem, it stood at 954 per 1000 male compared to 2001 census figure of 929. The average national sex ratio in India is 940 as per latest reports of Census 2011 Directorate. In 2011 census, child sex ratio is 916 girls per 1000 boys compared to figure of 851 girls per 1000 boys of 2001 census data.

2.1 Salem District Urban Population 2011

Out of the total Salem population for 2011 census, 50.95 percent lives in urban regions of district. In total 1,774,122 people lives in urban areas of which males are 898,297 and females are 875,825. Sex Ratio in urban region of Salem district is 975 as per 2011 census data. Similarly child sex ratio in Salem district was 935 in 2011 census. Child population (0-6) in urban region was 171,539 of which males and females were 88,651 and 82,888. This child population figure of Salem district is 9.87 % of total urban population. Average literacy rate in Salem district as per census 2011 is 79.67 % of which males and females are 85.79 % and 73.43 % literates respectively. In actual number 1,276,801 people are literate in urban region of which males and females are 694,572 and 582,229 respectively.

2.2 Salem District Rural Population 2011

As per 2011 census, 49.05 % population of Salem districts lives in rural areas of villages. The total Salem district population living in rural areas is 1,707,934 of which males and females are 883,274 and 824,660 respectively. In rural areas of Salem district, sex ratio is 934 females per 1000 males. If child sex ratio data of Salem district is considered, figure is 898 girls per 1000 boys. Child population in the age 0-6 is 173,421 in rural areas of which males were 91,351 and females were 82,070. The child population comprises 10.34 % of total rural population of Salem district. Literacy rate in rural areas of Salem district is 65.74 % as per census data 2011. Gender wise, male and female literacy stood at 74.57 and 56.32 percent respectively. In total, 1,008,761 people were literate of which males and females were 590,535 and 418,226 respectively.

3 Statement of the Problem

Saving is a very important component which is responsible for combating or meeting any emergency accrued by the individuals or the households or any corporate agencies. Saving is more of meant for meeting contingencies but sometimes it also acts as a form of investment. But sometimes people are not inclined towards saving and the very delicate reason is lack of awareness. The present study can be a relevant one to know the reason of saving and if saving occurs then what are the determinants which are responsible for saving. Aggregate saving in any economy is dependent on a number of variables. For effective economic planning, the planners should have an idea regarding the volume of saving of different groups of people and the method by which saving can be improved more over in a better way.

To advocate appeals for saving, there is a need to know about the saving motives of the individuals. An understanding of the saving preferences also helps in calculating the saving instruments which can efficiently arouse saving. Salem is a state having a very poor access to the saving need which really has made a great interest in the minds of looking at the perspective as a whole. Right now, saving more and spending more simultaneously has become the basic and conflicting factor for the economy. The present influence of the households in Salem should experience total saving, which helps to step up the saving in the economy. Thus, there is an immediate need to carefully understand the determinants of both the household saving rate and the saving pattern in the rural households of Salem.

4 Conceptual Framework

- **Household:** A social unit living together where all the individuals share a common kitchen.
- **Savings:** The share of disposable income not spent on consumption of consumer goods but accumulated or invested straight in capital equipment or in paying off a home mortgage, or not directly throughout purchase of securities.
- **Financial institutions:** Private (shareholder-owned) or public (government-owned) organizations that, generally speaking, act as a waterway between savers and borrowers of funds (suppliers and consumers of capital).
- **Consumer spending pattern:** Good and services bought by households in the fulfilment of their needs and wants. It includes non-durables such as food, semi-durables such as clothing, and durables such as refrigerators etc.
- **Average Propensity to Save:** Fraction or percentage of disposable (after tax) personal income not spends for consumer goods. It in general varies with the intensity of income.
- **Net worth:** It is defined as the total market value of all assets, such as home equity, stocks and bonds, and savings accounts, minus all debts, such as mortgages, school loans, and automobile loans. It is a theoretically important measure because it reflects the aptitude to have met consumption desires in the past (net worth will be positive if income has been higher than expenditures up to that point in one's life), as well as the ability to finance upcoming consumption by depiction upon accumulated possessions.

5 Relationship between Saving and Income

The present study empirically examines the relationship between saving, income and consumption showing a positive relationship between saving, income and consumption. As the income of the individual increases, consumption increases and simultaneously saving also increases. Economic studies have shown that income is the primary determinant of consumption and saving. Rich people save more than poor people, both absolutely and as a percent of income. The very poor are unable to save at all. Instead, as long as they can borrow or draw down their wealth, they tend to save. That is they tend to spend more than they earn reducing they're accumulated saving or going deeper into debt. So we can say that there is a deep relationship between consumption, income and saving and they all affects to each other which can be shown with the equation:

$C=f(Y)$
$Y=C+S$
$S=Y-C$
Here,

C=Consumption
S=Saving
Y=Income

Here, the analysis of the saving and income of the individuals with the other independent variables are given through a linear regression analysis. This can be given through the following description:

Y= f (GEN, AGE, MAR_STA, EDU, PR_OCCU, FA_MEM, HS_TP, LAND)

Y=0+1GEN+2AGE+3MAR_STA+4EDU+5PR_OCCU+6FA_MEM+7HS_TP+8LAND
Here,
Y=Income of the individuals
GEN=Gender
AGE=Age of the Respondents
MAR_STA =Marital Status
EDU=Educational Qualification
PR_OCCU=Primary Occupation
FA_MEM=Family Members
HS_TP= House Type
LAND= Details of Land Acres

Y= 4.193+ (-0.22) GEN+ (-0.09) AGE+ 0.045 MAR_STA+ 0.58EDU+ (-66) PR_OCCU+ 0.08 FA_MEM+ (0.06) HS_TP+ 0.121 LAND
't' Statistics= 31.458+ (-545) GEN+ (-3815) AGE+ .785 MAR_STA +2.245 EDU+ (-2.365) PR_OCCU + .58 FA_MEM + (-.243) HS_TP+ ..01 LAND

Table: 1: Saving Behavior and Income of the Individuals

Dependent Variable: Income of the individuals				
Independent Variable	**Coefficient**	**Std. Error**	**'t' statistics**	**Significant**
Gender	4.193	0.21	31.458	0.002
Age	-0.22	0.081	-545	0.612
Marital	-0.09	0.004	-3815	0.01
status	0.45	0.066	0.785	0.686
Educational qualification	0.58	0.035	2.245	0.28
Primary occupation	-66	0.335	-2.365	0.106
Number of family members	0.08	0.012	0.58	0.889
House type	0.06	0.08	-0.243	0.999
Details of land acres	0.121	0.148	0.01	0.404

The above table 1 examines the relationship between the savings and income and with the other independent variables i.e., Land acres, marital status, Gender, House type, Number of family members, Primary occupation, and Age and Educational qualification. The result shows that the relationship between the income and savings is highly significant as the income increases; savings of the individual also increases. The result also shows the relationship of the income of the individuals with other independent variables as Gender (male and female) is negatively related to income of the individuals showing an insignificant relation, the age of the members of the household is negatively significant. Marital status and educational qualification of the respondents has a positive relationship with the income of the individuals but is insignificant. Primary occupation has a negative relation with the income but is significant. The number of family members and the possession of the land acres have a positive relationship with the income of the individuals but it is insignificant.

Conclusion

In the conclusion of the above theories and literature, we found that the savings does not depend upon income alone rather on the consumption pattern of the individuals also. The relative and permanent income hypothesis holds that the relationship between consumption and income is proportional whereas the relationship of the life cycle hypothesis is non-proportional. By the above theories it is clear that when the income grows the population is encouraged to save and the dis-saving occurs with the old generation as due to no or less income. The relationship between saving and the age-structure of the population is also a current topic of debate.

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