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ANALYSIS OF LITERATURE REVIEW OF CONSUMPTION PATTERN – AN IMPORTANT INDICATOR OF ECONOMIC DEVELOPMENT

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Abstract

The paper analyses a broad literature review of study conducted by researchers at different parts of world to establish a relationship between human quality of life and its impact reflected through their consumption pattern. Consumption has remained an important parameter in evaluation of economic development. It is one of the primary components of GDP. GDP of any nation is nothing but the aggregate demand of goods and services. The relation between aggregate income and aggregate consumption is a significant component in explaining the analysis of national Income. The effect of consumption function on economic fluctuations was mentioned by all the eminent economists from Malthus to Wicksell in explaining the business cycle literature and its contribution in economic development. Over a period every economy, whether developed or developing, has observed change in the consumption pattern, which had been an outcome of changing life style. Better quality of life is an indicator of economic development and consumption pattern has changed with escalation in quality of life, proving its significance. This higher quality consumption is an outcome of increased disposable income supported by advanced retail outlets. The consumption behaviour abides by the Keynesian psychological law of consumption function.

Keywords- Consumption, Disposable income, Economic development, Quality of life, Retail,

Introduction

Economic development may be interpreted as the attainment of a number of “ideas of modernization”, such as rise in productivity, social and economic equalization, modern knowledge, improved institutions and attitudes, and a rationally coordinated system of policy measures that can remove the host of undesirable conditions in the social system. Economic development also involves a change in social attitudes, cultural set-up and institutional frame work, (ICMR, 2006). Economic development enables to escalate the quality of life, increasing efficiency.

The interrelationship between growths in one sector creating its impact in the economic development is evident. Every year the national GDP reflects contribution coming from different sector. There is interdependency between economic development and the contribution coming from different sectors in enabling it to happen.

Traditional development theory states that economic development leads to accumulation of capital. This accumulation happens through generation, realisation and reinvestment of surplus created, by using fixed capital, with labour, which is transferred from the labour-surplus “traditional” sector. Capital formation generates employment which gives a boost to production. However, this path of development can be sustained only if adequate supply of food to the modern sector is guaranteed. This results in increase of food consumption. Such a process is supposed to transform the traditional sector into a modern one and thereby ensuring self-sustained growth of the less developed economy,(Saumya Chakraborti and Anirban Kundu, 2009).

Keynesian psychological law of consumption states that increased income is distributed between consumption and saving. Whatever is not consumed is saved. The psychology of the community is such that when aggregate real income is increased aggregate consumption is increased, but not to the proportion of increase in income-(J.M. Keynes(1936)as in Sethi,1981)

Propensity to consume is not the mere desire to consume, but the actual consumption that takes place or is expected to take place, out of varying amounts in the change in disposable income, (J.M.Keynes (1936)as in Sethi, 1981).

Increased disposable income, so obtained through capital formation, pushes up this consumption leading to economic development. The consumption function shows the relation between aggregate income and aggregate consumption. Consumer money drives the economy, and retail is where consumers spend that money. Retail business is governed by human consumption, (Chetan, et al, 2008).

Consumption is the value of **goods and services bought by people**. Individual **buying acts** are **aggregated** over time and space. Consumption is normally **the largest** GDP **component**. Before Economic Reforms, consumption comprised of apprx 52% of the GDP, however after reforms, it has grown its share to more than 62%,(Sachdeva,2008). Many persons **judge** the economic **performance** of their country mainly in terms of consumption level, which is distributed in the consumption of three categories of products, namely-durable, nondurables and services ," (Samuelson Nordhaus,2005).

Consumption occurs through both Institutions and Industry as well as by individuals. The individual consumption rise, also leads to increased aggregate demand. The accelerated demand leads to increase in production and thus brings back its return to the consumer in the form of wages & profit. Thus in a simple closed economy, the household spends their income. This spending on consumer goods (termed Consumption(C)) is the only component of aggregate demand (AD). But in present day open economy, international trade and government spending also constitute to the aggregate demand, (ICMR, 2006).

India's market reform has widely been the inevitable consequence of "globalization". This market has drawn strength from a "new breed of entrepreneur" who, unlike the older generation of the family-owned business, are confident in their ability to face global competition without the state's protection. (Mitu, 2008)

Ever since 1991 economic reforms were continued by various governments year on year, the economy grew above 6%, which resulted in improvements of income dynamics. These factors along with favourable demographics like increase in spending patterns are driving the consumption demand. Indian retail industry is ranked among the ten largest retail markets in the world. India is witnessing an unprecedented consumption boom. The attitudinal shift of the Indian consumer in terms of "choice Preference", "Value for Money" and the emergence of organized retail formats have transformed the face of Retailing in India. The Indian retail industry is currently estimated to be a US$ 200 billion industry & organized Retailing comprises of 3% or US $6.4 billion of the retail industry. With a growth over 20 % per annum over the last 5 yrs, organized retailing is projected to reach US $23 Billion by 2010 (Singla et al, 2007)

In the pursuit of economic development, cities can gain significant advantages by assessing their retail market in relation to the local demand. Having the right composition of retail firms maximizes economic strength. The resulting retail estimations are an effective tool for city planners and developers to recruit appropriate retailers to a city. City leaders employ numerous policies to develop their local economy, which target numerous benefits of economic growth, (Straut et al, 2009).

An effective estimation of retailer was done using reported sales figure, consumers expenditure, market serving index and survey of institutionalized population and was found that appropriate retail estimation is the tool for the city planners to aim economic growth. Estimation of sales along with consumer expenditure and then mapping with the market serving index enabled to identify the deficit or surplus of retailer in each specific category. Even inclusion of potential institutionalized sale enabled to know the escalated demand to go for appropriate retail base, which strengthens a local economy and can improve the quality of life for the residents, (Straut et al,2009).

Wal-Mart the world's largest retailer and a dominant in US business shows a contra cyclical response in its sales trend. They investigated significant long-run relationships between the business of Wal-Mart and the overall US economy as measured by an array of traditional macro-level variables. It is dampened in more prosperous economic periods, and buoyed in sluggish economic environments. The pace of its sales is inversely related to both measures of income and growth. That had been evident from the sales analysis of the slowdown during subprime mortgages. The sales grow slowly when employment accelerates. During slow economic growth its impact of EDLP and array of product ranges pushes up the sales. Thus the more prosperous economic environment acts as a bane to the business of Wal-Mart, (Robert et al, 2009).
With the amendment of APMC Act in India, organized retailing became a viable proposition, direct sourcing of produce by organized retailers from the farmer, is enabling supply chain getting shrunk considerably by eliminating intermediaries. The shrinkage in supply chain will be able to cut the middle men and thus pass on that benefit to the consumers resulting in increased purchasing capacity. The real value of money will go up

and push up the consumption level. The real income will go up and can help an individual increase in quality of living standard, (Vijay kumar et al. 2008).

This expansion of Retail sector is giving way, to increase in consumption, enabling in GDP growth and Economic Development of the nation. The economic development of a nation can be estimated through study of various aspect of escalation of quality of life- like

- Standard of living of the people in different periods
- Quality of Housing & sanitation system
- Supply of drinking water
- Basic Education availed

Consumption patter has been studied at different places all across the Globe and a remarkable change has been observed over a period of time. Both developed and developing economies have exhibited significant change in the consumption behaviour.

In India organized retail has been an outcome of changing life style of Indian's. People in order to adopt more westernized life adopted this new concept over the traditional kirana stores. People have started looking towards shopping as an experience and a means towards change in today's hectic life style. The mall culture has given space to these large formats and enabled to provide the one-stop-shop experience to the people.

World Studies of Consumption pattern

Indian consumer has undergone a remarkable transformation in their consumption pattern. Just a decade or two ago, the Indian consumer saved most of his income, purchased the bare necessities and rarely indulged himself. Today, armed with a higher income, credit cards, exposure to the shopping culture of the west and a desire to improve his standard of living, the Indian consumer is spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fuelling his addiction. His new mentality, in turn, is fuelling the growth of organized retail in India, **Rahul and Rahil** (2007)

Estimates of consumption expenditures provided by the **Central Statistical Organisation**(**1998**) indicate that items relating to food, beverages and tobacco account for almost 45% of the total private consumption expenditure in India, and food items alone account for more than 39%. Images-KSA Technopak (2005) has indicated that estimated total retail sales in India was INR 9300 Billion in 2003-04 and food and grocery items accounted for around INR 6150 Billion

The report of **The National Council of Applied Economic Research (NCAER)** stated that the households in India are classified into five income groups based on annual household income. The highest income group had an annual income of more than INR 140,000 at 1998-99 prices. The lowest income group had an annual income of less than INR 35,000. NCAER estimates that in 1985-86, almost two-thirds of Indian households belonged to the low income class and just 1% of households were in the highest income class. Since 1992-93, the income distribution has changed significantly. In 1998-99, the top income group of those earning more than INR. 140,000 per annum comprised 5.7% of all households. The proportion of middle and high income households, i.e those earning an income of more than INR 70,000 per annum increased from 14.2% of all households in 1985-86 to 25.8% in 1998-99. Correspondingly, the proportion of households in the lowest income class has declined from 65.2% in 1985-86 to 39.7% in 1998-99. The change in income distribution has been even more pronounced if only the urban areas are considered. These developments are some of the important factors in the Indian economy that are stimulating the retail sector to modernise and match the emerging aspirations of consumers.

A study done in US economy by **Rulon D Pope, (2009)** has shown a change in the pattern of consumption. During the slowdown of the US economy in 2007, some demands were recession resistant (e.g.beer) while others were very procyclical (e.g., wine). The response of consumption to growth and business cycles was done using quarterly National Income and Product Account (NIPA).

The expenditure pattern as observed through Consumption Expenditure survey (CEX) found that consumption of food exhibited a different response than on durables. Though In earlier studies, 80% of consumers obeyed Life Cycle PIH (Hall & Mishkin (1982) in Rulon, 2009) i.e, expenditure being done from acquired wealth. But in the recent trend it followed that 50% of individual's accrue consumption out of current income rather than permanent income. This proves that as disposable income increases, individual consumption also goes up.

Various demographics, cultural factors and purchasing behaviours influencing the consumption of some specific dairy products like fresh milk, yogurt, ice cream and powdered milk in Beijing, Shanghai and Guangzhou, China were studied by **Frank et al, (2007)** . Results of consumption pattern show that income and marketing channels are the key determinants of milk consumption levels; however, education, advertising and convenience play a more important role in consumption of other dairy products. There is some evidence that milk powder, as a consumer good, may be becoming an inferior product in urban China. The survey data suggested that the growing sophistication of China's retail sector is influencing consumption of other dairy dairy products.

Retailing in China has become an important engine driving the nation's economy as observed by the study of **Enru Wang and Jinping Song,(2007)**. Along with the rapid expansion in scale, the retail industry has also experienced profound structural changes in the cities. The transformation of the retail sector in large cities like Beijing and Shanghai is characterized by a realignment of ownership structure, diversification of retail functions, the emergence of new retail formats, the increasing concentration of retail capital and rapid expansion of retail chains, and spatial restructuring and retail suburbanization. The transformation not only reflects the changing supply and demand relations and the interaction between retailing and consumption but also is intrinsically connected to the shift in government policies.

The state played a key role in retail transformation and in urban and economic development in general. It proposed that the Chinese state is moving with a transformation from a socialist state to a developmental state of its own kind.

A study done in Germany by **Jennifer Gerend,(2009)** identified that in Germany, retail planning process is considered as a National issue. The regulatory system is aiming towards complex retail development more logically, stemming from the view that every retail format has its place but should not be allowed to harm an existing retail environment. German policies aimed at protecting downtown & neighbourhood central-shopping environments. The regulatory aspect is needed for town planning, for an effective retail concentration and to intricate Retail planning regulations to preserve synergy and vitality with central shopping areas.

Retail planning system had thus aimed in taking a constructive approach on how to more effectively incorporate malls into existing central areas, keeping downtown preservation in mind. The economy in the long run would profit with good urban design, synergy and plenty of accessible retail provisions. To bring about a well designed shopping environments with some degree of regulation as a way of protection policy.

Report of American Management Consulting Firm A. T. Kearney's 2006 Global Retail Development Index (GRDI), India is on the first position , continuing for two years (2005 and 2006), among 30 countries as the world's most attractive market for mass merchant and food retailers seeking overseas growth. On the other hand, China is losing its attractiveness and making the way to India GRDI helps retailers to prioritize their global development strategies by ranking emerging countries based on a set of 25 variables including economic and political risk, retail market alternatives, retail saturation level, and the difference between gross domestic product growth and retail growth.

The study quotes: "The Indian retail market is gradually but surely opening up, while China's market is becoming increasingly saturated." There are several factors that acts as the growth drivers-which includes

* **Demography Dynamics**: Approximately 60 per cent of Indian populations are below 30 years of age.
* **Double Incomes:** Increasing instances of Double Incomes in most families coupled with the rise in their spending power
* **Plastic Revolution:** Increasing use of credit cards for categories relating to Apparel, Consumer Durable Goods, Food and Grocery etc.
* **Urbanization:** increased urbanization has led to higher customer density areas thus enabling retailers to use lesser number of stores to target the same number of customers. Aggregation of demand that occurs due to urbanization helps a retailer in reaping the economies of scale.

Investment Opportunities

* **Potential for Investment:** There are potential for total estimated Investment Opportunity in the retail sector.
* Location: with modern retail formats having made their foray into the top cities namely Hyderabad, Coimbatore, Ahmedabad, Mumbai, Pune, Chennai, Bangalore, Delhi, Nagpur there exists tremendous potential in two tier towns.

* Sectors with High Growth Potential: Certain segments that promise a high growth are
Food and Grocery (91 per cent)
Clothing (55 per cent)
Furniture and Fixtures (27 per cent)
Pharmacy (27 per cent)
Durables, Footwear & Leather, Watch & Jewellery (18 per cent).

Globalization is the cause of increasing financial flows. Foreign direct investment (FDI) is the most interesting way for a country to increase its total investment capacity. Multinational companies (MNCs) are the major FDI providers. They adapt their strategies to their objectives and to the conditions prevailing in an internationalized world economy. It is found that FDI are attracted by certain locations because of its potentiality and acts as a source of development as well as it safeguards favorable regulatory policy that benefit the economies of both home and host countries.

The study done by **Hilmi et al, (2009)** analyses three major entry modes-wholly-owned mode, international joint venture and contractual mode; and the subjacent strategies associated with each, the paper deals with the different impacts on the source economies and the receipt countries from each of the mode of global entry. The study observed that as per the suitability of each nation, the FDI policy is adopted and that has proved benefit from economic development point of view.

Six Latin American Countries of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico, were studied by **Terry Roe and Lin Shien,(2004),** which showed that retail market share commanded by supermarkets has grown from a population weighted average of 10–20% in 1990 to 75% for Brazil, 50% for Chile, 38% for Colombia, 50% for Costa Rica, and 45% for Mexico, which shows an average of 50–60% of food retail sales in 2000. By 2001, supermarkets in Argentina accounted for 57% of its share of total food retail sales

Growth in retail demands for convenience foods, for quality, variety, and continuity over time. This is due to growth in urbanization, an increase in the opportunity cost of time associated with the entry of women into the

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labour force, and growth in real per-capita income during the 1990s which has given households access to higher quality of life, with vehicles and refrigeration.

There is change in household expenditure shares on food purchased from modern versus traditional retail outlets as incomes grow. The economy's stock of capital almost doubled, causing gross domestic product (GDP) per capita to increase by about 30%, while the savings rate fell from 23% of disposable income to about 8.8%.

This change in consumption saving pattern is governed by Keynesian Psychological Law of Consumption, which is considered to be consisting of three related propositions:

(i) When aggregate income increases, consumption expenditure also increases but by a somewhat smaller amount. This proposition may be considered to be the core of Keynes's psychological law of consumption.

(ii) An increase in income is divided in some proportion between spending and saving. This follows from the first proposition because what is not spent through consumption is saved. Keynes has stated, though somewhat less definitely, that as a rule a greater proportion of income is less definitely, that as a rule a greater proportion of income is saved as real income increases

(iii) With this increase in income, both spending and saving go up. It is very unlikely that an increase in income will lead either to less spending or less savings than before.

This Consumption expenditure is based on three assumptions:

(i) The current consumption expenditure is a highly dependable and stable function of current income. In other words, consumption depends upon income alone and the institutional and psychological factors, such as, income distribution, price level, rate of population growth, tastes, habits, etc, are assumed to be constant. This implies that propensity to consume is assumed to be constant.

(ii) The circumstances remain normal, that is, there is no hyper-inflation or war or any other abnormal conditions in the economy

(iii) The economy is a rich prosperous capitalistic economy and follows the policy of lassiez- faire.

The two technical attributes of consumption function are APC (Average Propensity to Consume) and MPC (Marginal Propensity to Consume). MPC is the ratio of change in the level of aggregate income. In other words, MPC is the ratio of additional C to additional Y. (ΔC in response to ΔY)

MPC= Change in Consumption/ Change in Income. ($\Delta C/\Delta Y$)

Similarly MPS = Change in saving/ Change in Income. (Δ S/ΔY)

Thus MPS=1 – MPC

Or(1- change in Consumption/ change in Income)(1-ΔC/ΔY)

Whatever is not consumed is saved. Since the above study of six Latin American country shows increased capital formation and increase in income with fall in savings from 23% to 8.8%. it indicates that the shift of 14.2% of income must have gone to increase the consumption rate. Total income Y being equal to 1, MPC is always positive showing increased consumption with proportionate increase in income and will lie between 0 and 1. ((J.M.Keynes(1936)as in Sethi, 1981).

Conclusion

The reviewed literature confirms that throughout the world a consumption transition is taking place in which people shift towards more affluent types of consumption pattern. This transition is taking place at different stages and form. In general whenever and wherever economic growth occurs per capita shift in consumption shows the same change of direction.

Further through primary study this relation can be established in Indian context. Organized retail is at a nascent stage in India. Through primary study data would be collected since planning period and then de trended to establish cross sectional and time series relationship. It can be observed how changes in economic circumstances change the consumption pattern and vice versa.

This will be able to evaluate the effects of-

- Increase in per capita income which in turn increases the household consumption.
- Demographical changes and improvements in the standard of living.
- Change in patterns of consumption and its effect in economic development

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