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Household Level Consumption in India: A Study using NSS Unit Level Data

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Abstract:

Certain key aspects of Indian household level consumption are studied in the paper. It is discovered that consumption expenditure is inversely related to family size and directly to average age of household. Rural households are found to have increased consumption disparities over time as compared to urban households. Intra-state consumption disparities have also been studied. It is found that district level consumption dispersion among rural households has increased the most for Andhra Pradesh, Assam and Kerala, while among urban households it has increased the most for Kerala, Jharkhand and Orissa.

1. Background

Consumption forms an important ingredient of total output. A better understanding of it will lead us to a better insight into output generation of the economy and can help us frame better economic policies.

The increased primacy of consumption was explained on the eve of the financial crisis by Professor George Ritzer (especially known for his work on McDonaldisation of Society) who says “There’s a kind of natural tendency – not just in Marxian theory, but in society in general – to prioritize issues of production. My whole view is that it doesn’t make sense for this whole prioritization to be taking place because in the day-to-day world what more and more people are doing, especially in the developed countries, is prioritizing consumption.... The best example of that is the fact that the largest corporation in the United States is now Wal-Mart. It’s not General Motors. It’s not any of the giant production companies. It’s a company that is oriented toward consumption, and which is dictating to producers around the world how much to produce, how to produce it, and how much they’re going to pay for it” (Dandaneau & Dodsworth, 2008).

2. Indian Studies of Consumption

Various studies have been carried out in the past with regard to Indian micro economic consumption behaviour. A large number of studies deal with specifically food consumption and nutrient intake. Meenakshi (1996) observed that per capita cereal consumption has declined while wheat and rice have replaced coarse cereals in diet for large parts of India. Radhakrishna (2006) finds that the consumption basket of the poor has been diversifying even as nutritional requirements are not being completely met. Most research using microeconomic data by far is on poverty studies. Some of these include These include Deaton and Dreze (2002) and Panagriya and Mukim (2014).

3. The National Sample Survey

An important source of consumption data is the National Sample Survey (Consumer Expenditure). The survey covers both rural and urban households. The following thick (large sample) rounds have been conducted: Round 38 (1983), 43(1987-88), 50 (1994-95), 55 (1999-2000), 61 (2004-05), 66 (2009-10) and 68 (2011-12). These rounds are normally conducted every 5 years or so. The Monthly Per Capita Expenditure (MPCE) for each household surveyed is calculated and its individual components are also collected. A reference period of past 30 days across all commodities (food, non-durables and durables), is defined as the Uniform Reference Period (URP) for MPCE. For our study we mostly use the measure of Average MPCE or AMPCE for rural and urban households for the Uniform Reference Period.

4. Some Underexplored Areas of Indian Consumption Behaviour

The present study deals with certain underexplored areas of micro economic consumption behaviour using unit level NSS data. These underexplored areas are:

- The influence of demographics such as average age and family size on household consumption
- A comparison of various states on the basis of a comparable demographic for family average age and household size
- An analysis of specific district wise trends within states

5. Findings

5.1. Influence of Average Age and Family Size on Household Consumption

We first observe for household sizes between 2 to 6 family members. The Average Monthly Per Capita Expenditure (AMPCE) for each household is calculated over various NSS rounds.

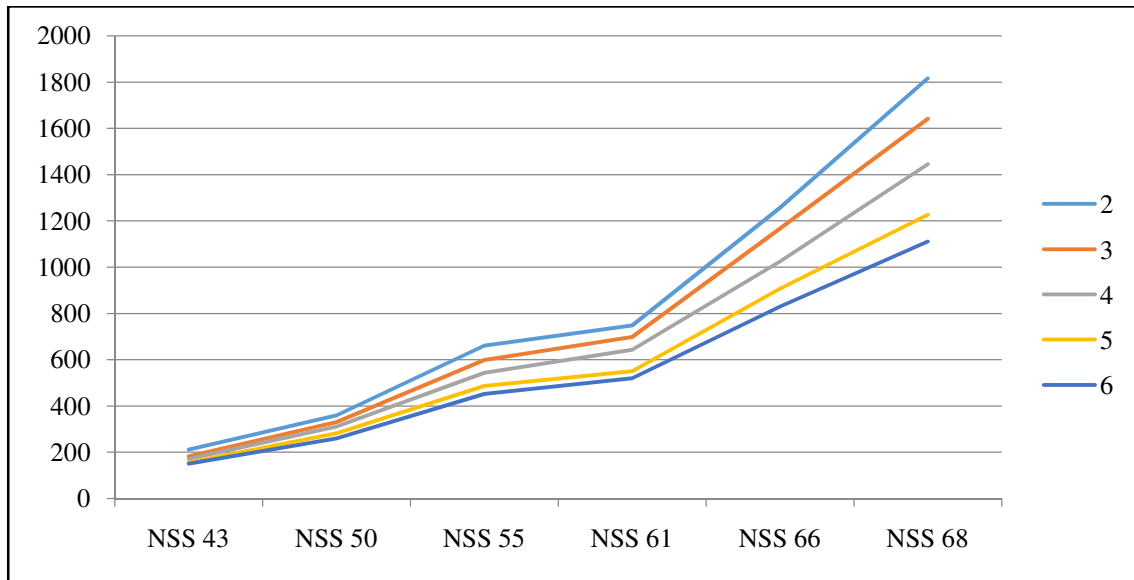


Figure 1: AMPCE (URP) at current prices in Rs. for Rural Households for household size 2-6

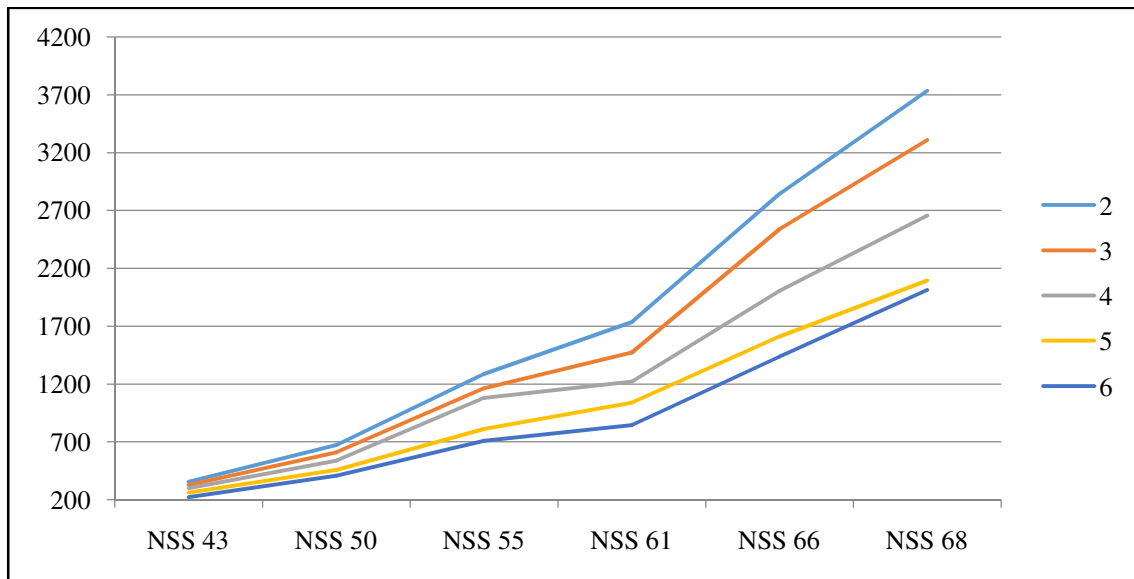


Figure 2: AMPCE (URP) in at current prices in Rs. for Urban Households for household size 2-6

It is clear that for both rural and urban households the average monthly per capita expenditures are inversely proportional to household size. Apparently the standard of living improves with reduction in household size.

We now investigate the role of Average Age of Household (AAH) on average monthly per capita consumption expenditure for rural and urban households.

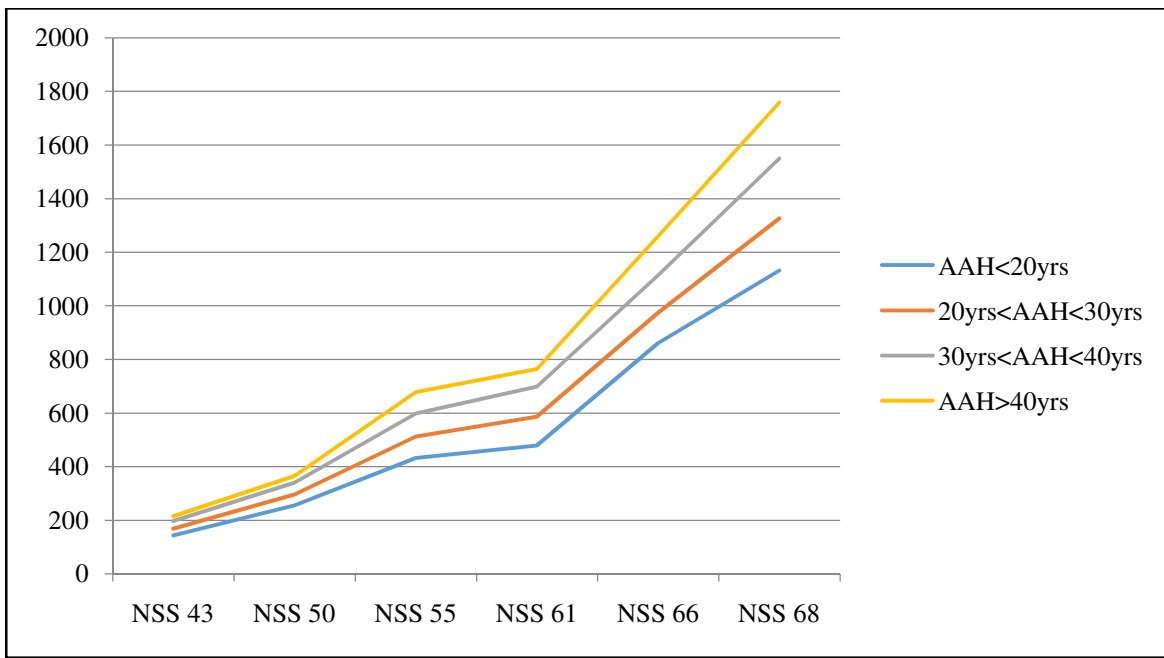


Figure 3: AMPCE(URP) at current prices in Rs. for Rural Households for various Average Age of Household (AAH)

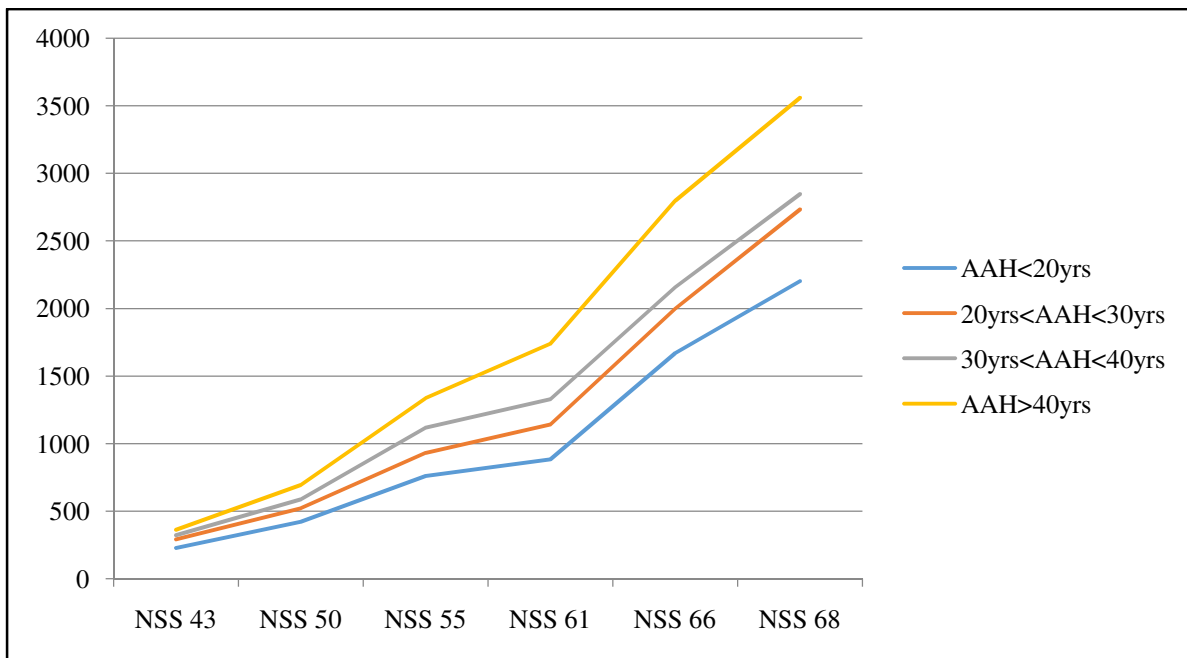


Figure 4: AMPCE(URP) at current prices in Rs. for Urban households for various Average Age of Household (AAH)

As average age of household increases, so does the per capita expenditure for both rural and urban households.

5.2 A comparison of various states on the basis of a comparable demographic for family average age and household size

Given below are rural and urban AMPCE across 17 states. We consider a “typical household” which is defined as one with a household size between 4 to 5 family members and household average age between 25-35 years.

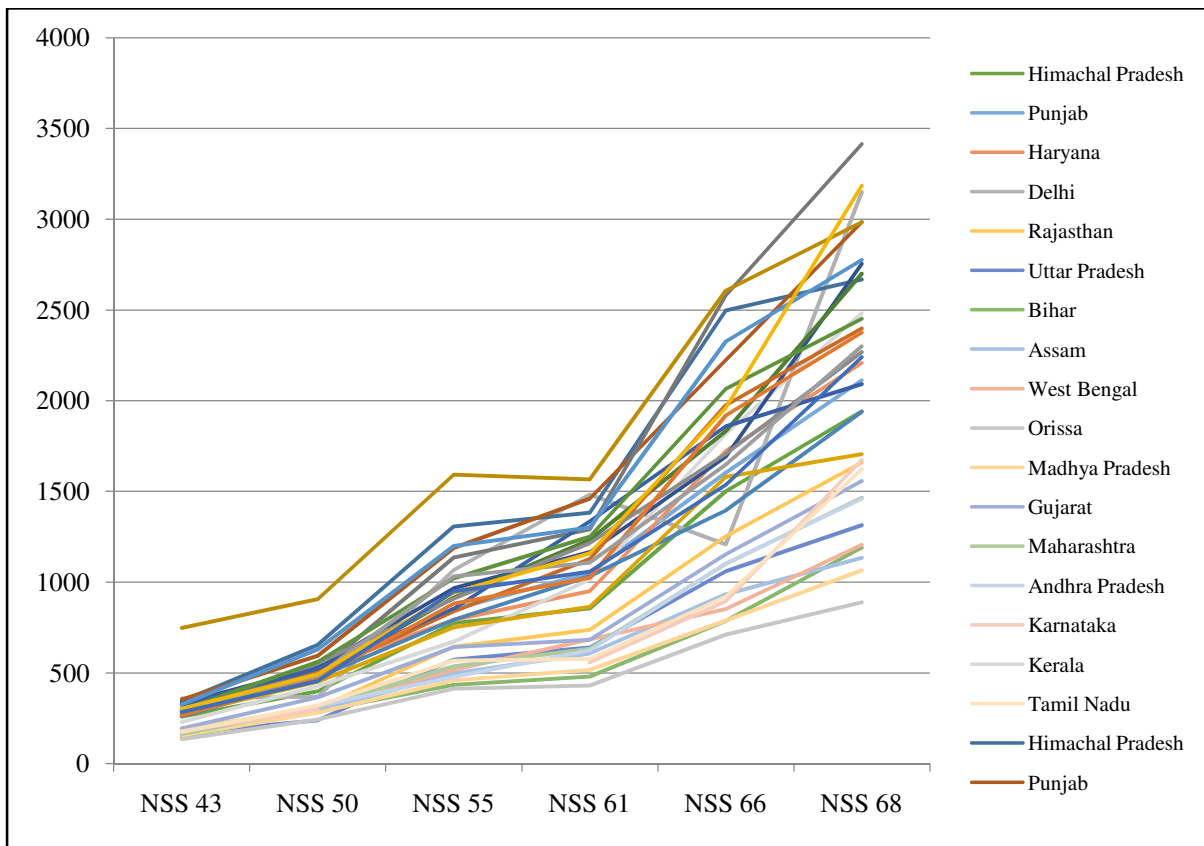


Figure 5 : Rural AMPCE(URP) (Current prices, Rs.) across 17 states for Household Size=4 or 5 and Household Average Age = 25-35 yrs

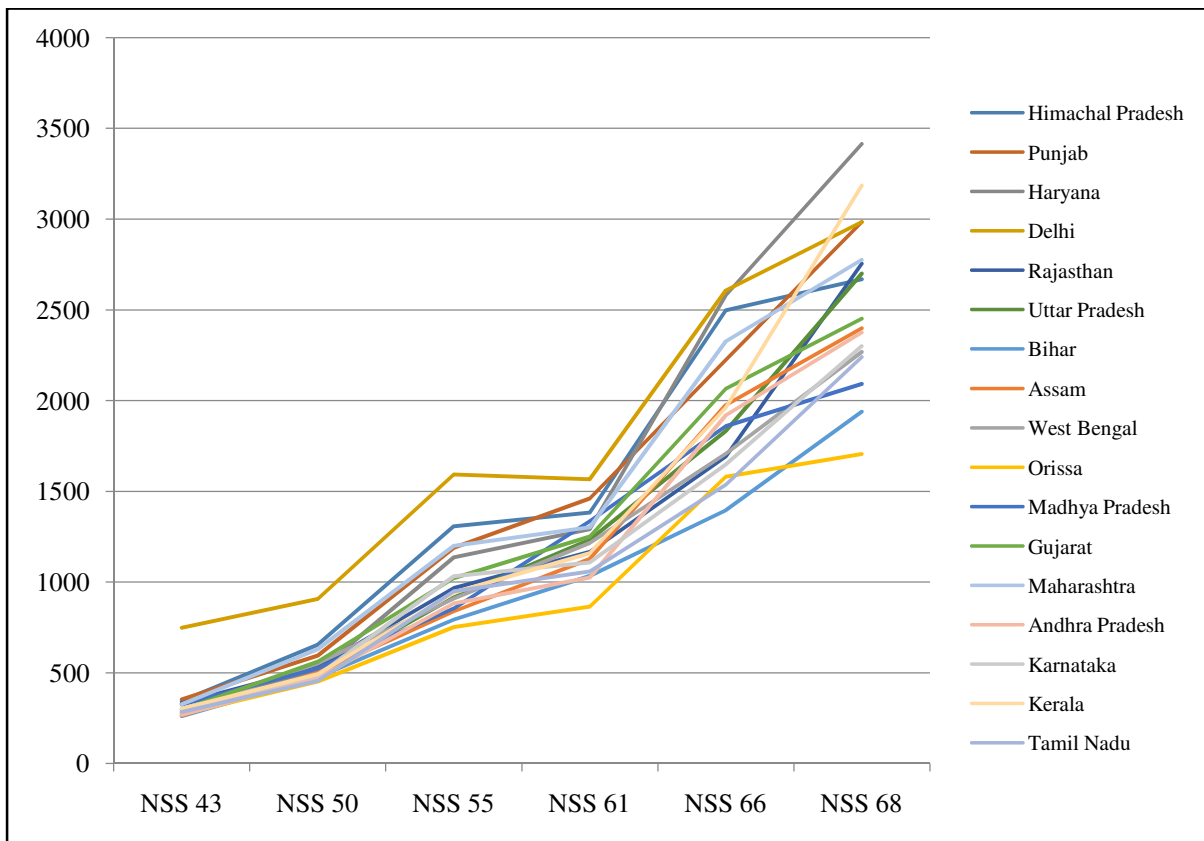


Figure 6: Urban AMPCE (URP) (Current prices, Rs.) across 17 states for Household Size=4 or 5 and Household Average Age = 25-35 yrs

A much wider dispersion of consumption expenditure has emerged over time among states for demographically similar rural households rather than for urban households. Rural disparities in consumption appear to have increased to a greater extent than urban disparities.

5.2. An Analysis of Specific District wise Trends within States

We now turn to analysing district wise consumption trends. Four districts per state are chosen for the study. Two are “high consumption” and two are “low consumption” districts (See Appendix for list of districts). We analyse the extent to which district level consumption disparities have risen or declined over time. This comparison is done between the time period 1999-00 (NSS 55th round) and 2011-12 (NSS 68th round). We define Net Divergence Change (NDC) as change in Coefficient of variation for Average Monthly Per Capita Expenditure (AMPCE) between 2011-12 and 1999-00. If there is a high value of Net Divergence Change it would imply that intra-state consumption disparities have probably risen over the given period of time. NDC is calculated for rural and urban households separately with data for 4 districts each for 19 Indian states. The following Figures show the behaviour of NDC.

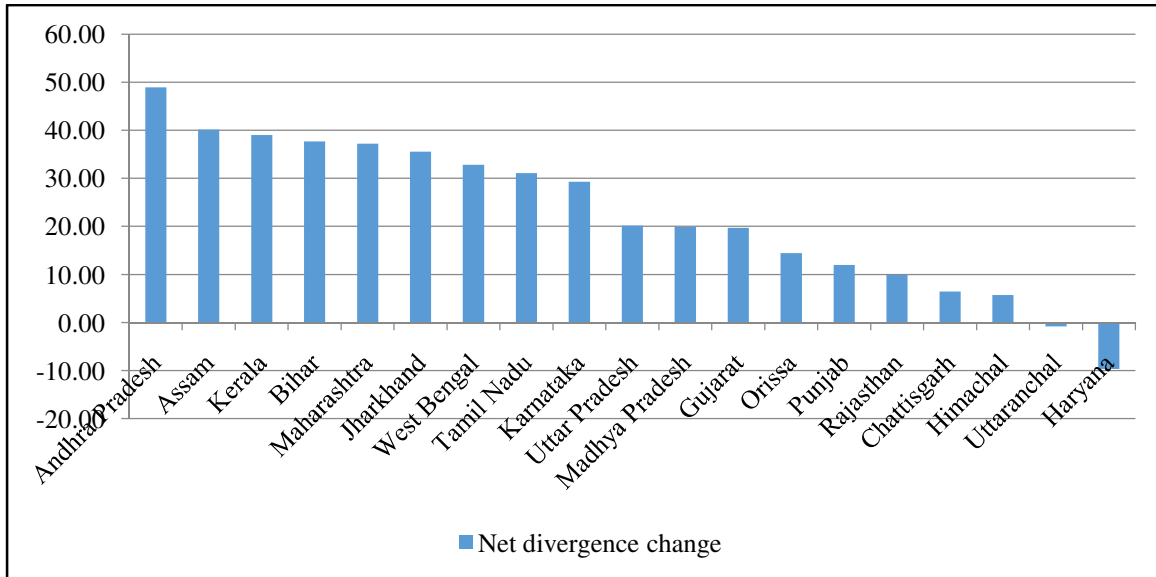


Figure 7: Net Divergence Change Rural households (1999-00 to 2011-12)

The greatest divergence in consumption has emerged for Andhra Pradesh, Assam and Kerala for rural households. The northern states of Haryana, Uttaranchal and Himachal appear to have progressed in a much more equitable manner for rural households.

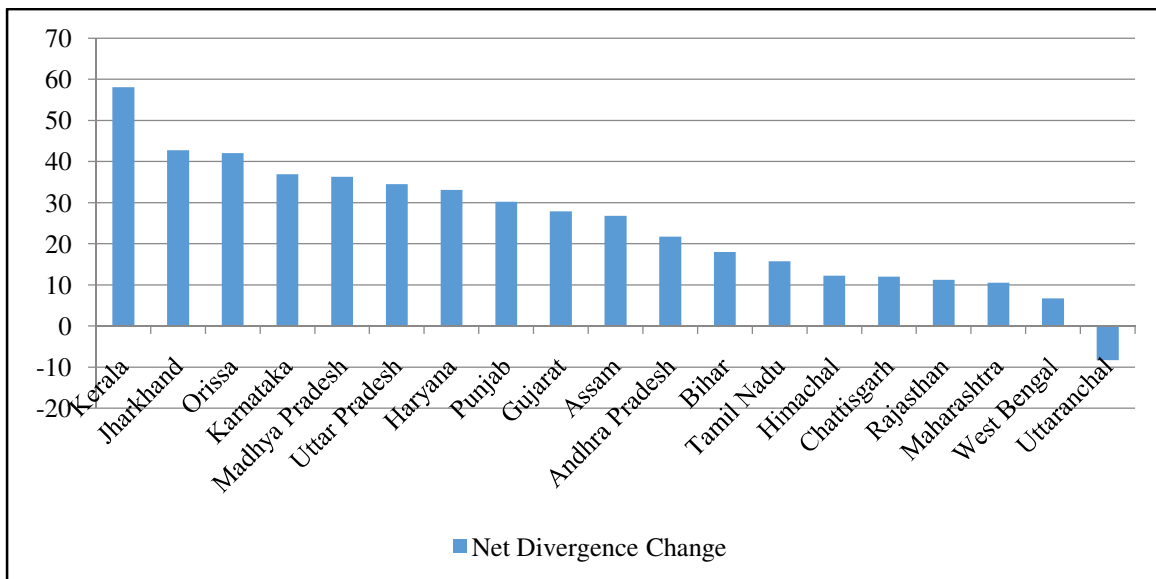


Figure 8: Net Divergence Change Urban households (1999-00 to 2011-12)

The most “inequitable” growth among urban households could be argued to have come from Kerala, Jharkhand and Orissa for urban households. The more uniform intra-state growth among urban households has come from Uttaranchal, West Bengal and Maharashtra. Uttaranchal scores well for equitable growth for both rural as well as urban households.

6. Conclusions

Some underexplored areas of Indian consumption expenditure have been studied using unit level NSS data. It has been shown that Average Monthly Per Capita Expenditure is inversely related to household size and directly related to Average Age of household. It has been observed that consumption disparities have increased to a greater extent for rural households rather than urban households. The intra-state consumption disparities have also been examined. For rural households it has been found that Andhra Pradesh, Assam and Kerala have experienced an increase in consumption divergence while consumption dispersion has declined for Haryana, Uttaranchal and Himachal Pradesh. For urban households inequity in consumption growth has been observed for Kerala, Jharkhand and Orissa while Uttaranchal, West Bengal and Maharashtra show more equitable growth.

7. References

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Appendix

List of Districts covered for Rural and Urban households (Section 5.2). The first two districts are “low consumption” and the next two are “high consumption” for each state.

State	Rural	Urban	State	Rural	Urban
Himachal Pradesh	Mandi	Mandi	Assam	Dhubri	Karimganj
	Kullu	Kangra		Karimganj	Cachar
	Kinnaur	Solan		Darrang	Bongaigaon
Punjab	Hamirpur	Hamirpur	West Bengal	Tinsukia	Jorhat
	Ferozpur	Hoshiarpur		Puruliya	Murshidabad
	Kapurthala	Gurdaspur		Koch Bihar	Birbhum
	Patiala	Bhatinda		Howrah	Kolkata
	Faridkot	Jalandhar		South 24-Parganas	Maldah
Uttaranchal	Tehri Garhwal	Dehradun	Jharkhand	Sahibganj	Sahibganj
	Chamoli	Nainital		Godda	Giridih
	Uttarkashi	Tehri Garhwal		Dhanbad	Hazaribag
	Nainital	Pithoragarh		Lahardaga	Ranchi
Haryana	Yamunanagar	Bhiwani	Chattisgarh	Bilaspur	Rajnandgaon
	Ambala	Mahendragarh		Bastar	Durg
	Rohtak	Faridabad		Surguja	Surguja
	Gurgaon	Gurgaon		Durg	Bilaspur
Rajasthan	Sirohi	Jhalawar	Madhya Pradesh	Betul	Raisen
	Dungarpur	Bharatpur		Satna	Seoni
	Ganganagar	Udaipur		Sehore	Chatarpur
	Jhunjhunu	Ajmer		Raisen	Bhopal
Uttar Pradesh	Basti	Rampur	Gujarat	Dohad	Kheda
	Barabanki	Barabanki		Kheda	Sabar Kantha
	Etah	Ghaziabad		Surendranagar	Valsad
	Faizabad	Allahabad		Rajkot	Mahesana
Bihar	Bhojpur	Nalanda	Maharashtra	Gadchiroli	Dhule
	Purnia	Bhojpur		Aurangabad	Sangli
	Madhubani	Saharsa		Solapur	Satara
	Saharsa	Madhepura		Pune	Mumbai and Mumbai(Suburban)
Andhra Pradesh	Vishakhapatnam	Nizamabad	Kerala	Kasaragod	Kasaragod
	Nizamabad	Adilabad		Kozhikode	Kannur
	Rangareddi	Hyderabad and Rangar		Kollam	Kottayam
	Krishna	Krishna		Ernakulum	Idukki

State	Rural	Urban	State	Rural	Urban
Karnataka	Chikmagalur	Bidar	Tamil Nadu	Tiruvanmalai	Tiruvanmalai
	Chitradurga	Bijapur		Ramnathpuram	Viluppuram
	Dakshin Kannada	Bangalore		Kanniyakumari	Coimbatore
	Kodagu	Dakshin Kannada		Madurai	Tiruchirappalli