

APPENDIX 21

CONSUMPTION

Consumption and saving behavior have changed remarkably in India since the early 1950s. Aggregate private final consumption's share in aggregate GDP has declined significantly. But still, household consumption constitutes the single largest component of GDP (55%) (see Table 20A-2 in the appendix to Chapter 20).

Table 21A-1 shows the major elements of consumption expenditure in India in 2007-08. The important components of expenditure are food, tobacco, beverage (42.2%), transport and communication (17%) and rent, fuel and power (11%). Going by the classification in terms of types of goods, the important categories are non-durable goods (49.3%) and services (40%). Durable goods such as household

equipment and motor vehicles absorb only 3.5% of the budget.

But this is the aggregate picture. Due to high income inequality and absolute poverty, the pattern of consumption expenditure varies a lot between different classes of people in India. Millions of people cannot afford even the bare necessities of life (see the appendix to Chapter 17).

SAVING AND INVESTMENT

In the early 1950s, both the gross savings and the gross fixed investment (termed as gross fixed capital formation (GFCF) in India's *National Accounts Statistics*) rates were less than 10% of GDP. By 2007-08, the former had exceeded 35% and the latter had reached a level of about 35%

TABLE 21A-1. Major Components of Consumption, India, 2007-08

Classified by object	Rs crores	Percent of total
Food, tobacco, beverages	1099504	42.2
Clothing and footwear	111189	4.3
Gross rent, fuel, power	287761	11.0
Furniture, furnishing, appliance, and services	104669	4.0
Medical care and health services	152296	5.8
Transport and communication	442762	17.0
Recreation, education, and cultural services	111532	4.3
Miscellaneous	296146	11.4
Classified by type of goods		
Durable	91451	3.5
Semi-durable	186713	7.2
Non-durable	1284096	49.3
Services	1043599	40.0
Private consumption expenditure in domestic market	2605859	100.0

Source: *National Accounts Statistics*, available at the website of the Ministry of Statistics and Programme Implementation, Government of India, www.mospi.gov.in.

(Figure 21A-1). This has been one of the most dramatic changes in contemporary India. India now has one of the highest savings and investment rates in the world.

is reflected in the increase in its share from less than 10% in 1979-80 to about 40% in 2007-08.

So far as savings are concerned, the main source has been the household sector (which

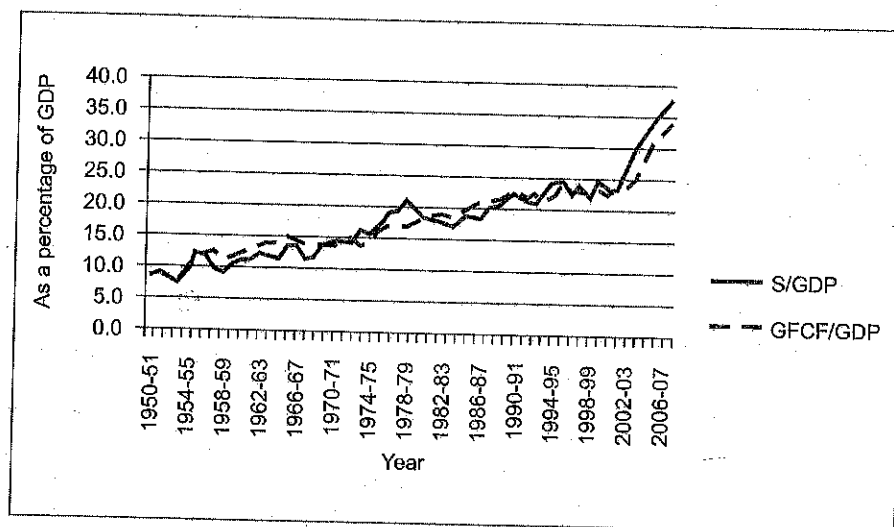


FIGURE 21A-1. Savings and Investment Rates

Source: Same as in Table 21A-1. GFCF is gross fixed capital formation. S (gross savings), GFCF, and GDP are at current prices.

As we will discuss in the appendix to Chapter 26, the government was assigned a very important role in India's initial strategy of development. In accordance with that, the share of public fixed investment did go up from around 30% of the total in 1950-51 to about 55% in the mid-1960s. But this could not be sustained. From the early 1980s in particular, there has been a sharp and consistent decline in the public sector share reaching a low of about 25% in 2007-08 (Figure 21A-2). The rising importance of the corporate sector

also includes the unincorporated enterprises in Figure 21A-3 as per the practice of *National Accounts Statistics*). Despite a drop in recent years, it still contributes to about two-thirds of the aggregate savings. In the earlier years, the shares of the public sector and the private corporate sector were fairly stable. But since the early 1980s, whereas public sector share has declined sharply, that of the private corporate sector has increased.

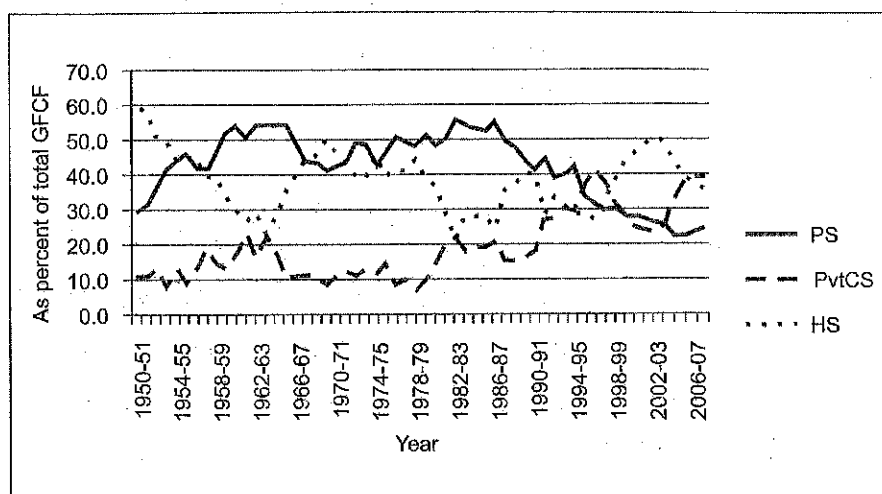


FIGURE 21A-2. Sectoral Fixed Investment in India

Source: Same as in Table 21A-1. PS: public sector; PvtCS: private corporate sector; HS: household sector; GFCF: gross fixed capital formation.

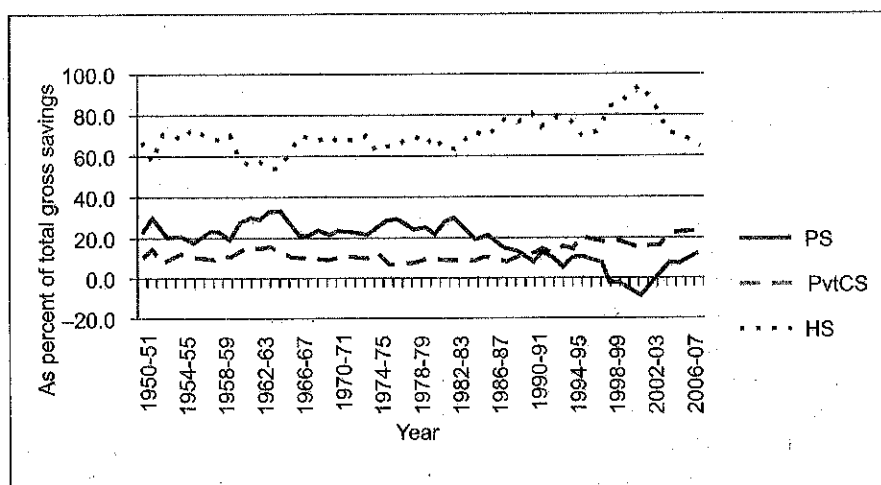


FIGURE 21A-3. Sectoral Savings in India

Source: Same as in Table A21.1. PS: public sector; PvtCS: private corporate sector; HS: household sector.