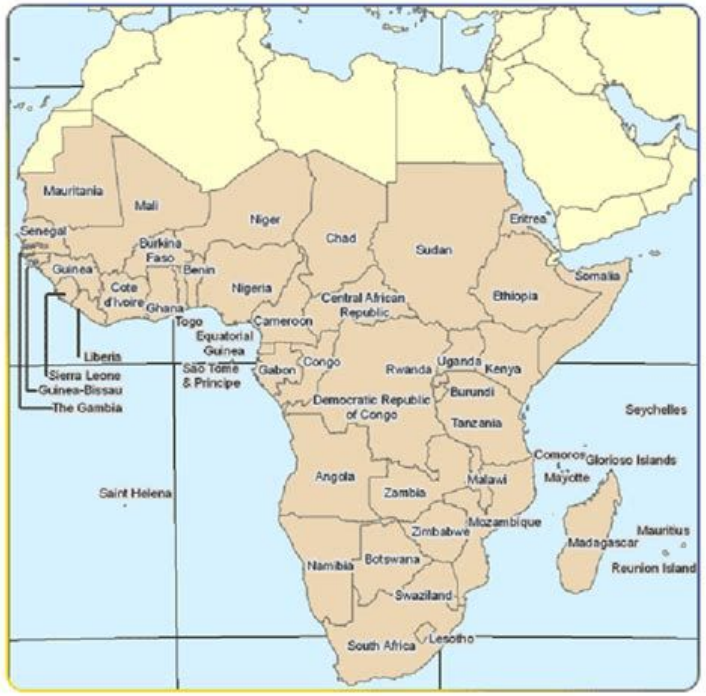
Aspirational Consumption in sub-Saharan Africa

Motivation

- We investigate aspirational consumption in SSA - taking cue from recent reports on the rise of aspirational consumption (aspcon) in BoP countries (poorer ⅔ of the world)
  - Main question: What is growth in aspirational consumption subject to?
    - We look at wealth and urbanisation
    - We understand aspcon with respect to a local hierarchy
- Why Africa?
  - Less research in sub-Saharan Africa
  - Large parts of Asia show patterns of affluent consumption



Aspirational consumption

1. Most common interpretation of aspiration consumption is that it is motivated by perceived hierarchy and social position/appropriateness. Being local is key - as a local context explains how aspcon exists under varied contexts (developed and developing economies).
2. Measurement of aspirational consumption is faced with a basic challenge : defining maximal basic need.
    a. We do not consider a basic need level (it's a sociological judgment difficult to gauge without tracking consumer motivations)
    b. A **two pronged approach** is taken instead
        i. Quality Variation View : Focusing on food as the needs over which quality variation is explored
        ii. Positional View: Considering education as of aspirational value - as it is non-durable and is subject to status pressures and does not contribute to assets
    c. The two-pronged approach also avoids lumping together food and non-food expenses (Food is recorded as weekly diary as opposed to monthly recall for non-food items)

Three Questions

1. What are the factors influencing aspirational consumption when considering quality in basic items?
2. What are factors influencing apscon when considering education as positional consumption in SSA?
3. What is the future of relation between income hierarchies and aspcon?
    a. A theoretical approach asks how far may aspcon continue to rise with rise in inequality

Chapter 1- Food Quality

1. Explores price-based Quality
2. Uses LSMS data from Tanzania
   a. The country has wide disparities in assets - having undergone recent urbanisation exposing it to urban consumption
   b. Farming is predominant in both urban and rural areas (i.e. semi-urban areas have a strong presence)
   c. Regional disparities are significant - eastern coast and north are relatively developed - whereas large parts of south/west are agrarian/forestland
3. The basic idea consists of
   a. calculating quality using Hick's commodity theorem - i.e. a theoretically sound measure
   b. using AIDS framework for quality and budget-share as depvars (Unrestricted Method)
   c. considering urban-rural differences and electricity access as controls - apart from using the explanatory variable : household total expenditure

Results from Chapter 1

1. Regional differences matter for quality
2. Wealth affects quality in FAO sense (see higher quality in some food commodities)
    a. **Meat** is important: With rise in lpcereals, the qVmeatsproteins increases but qVstarches and qVveg declines
    b. For most, **fruits** seem important. qVstarches declines with rise in prices lpfruits (under qVstarches) and qVfruits stays about the same (or even rises) with rise in lpstarches (under qVfruits)
3. Electricity matters (not per household - but by area)
4. Caveat: Significant hunger in rural areas is noticeable (see descriptive data)
5. Is Food Aspirational?
    a. No - it's a basic need
    b. Yes - a certain social need may exist
6. If wealth affects quality then aspirational consumption cannot rise as much (lower wealth consumer may not access higher 'basic/needed' quality).
7. Key Takeaways
    a. Focus on meat and quality seems more significant than for quantity
    b. Future consumption of high quality may continue to be limited to wealthy consumers

References

1. See Page 33 with ln_tot_exp
2. See Page 34 with total assets
3. Dependent variables are in Table 8 (page 28)

Chapter 2 - Education Expenses and Urbanisation

- Education as aspirational consumption
  a. To reiterate: No basic level of education expenses is assumed (above which the expenses could be considered aspirational)
  b. We look at cross-sectional effects and control for physical access and social factors
  c. The analysis is not a cross-country comparison of expenses. Instead the relationship with income is compared across the two economies - Nigeria and Tanzania
- Two problems with data across Nigeria and Tanzania
  a. rural-urban classifications are different (binary rural-urban distinctions have also been deemed insufficient in the literature - a problem we resolve with a standardised view of asset density)
  b. educational expenses are recorded differently
- Method:
  a. w_educ and log(x_educ) are in the two formulations used. log(x_educ) is more relevant for regional differences.
  b. Main explanatory variables are total expenditure and assetdensity
  c. Caveat: regional differences can be picked up by secondary_schools and log_mean_cost_ne as well

Results from Chapter 2

1. HW effects remain strong throughout - although regional differences (assetdensity) overweigh for NGR (log(x_educ)). This is despite for secondary schools and log_mean_cost_ne
   a. The rich are able to access education more often in TNZ (HW effect strong).
   b. The expenditure (log(x_educ)) on secondary education and tertiary education is also lower in Tanzania
2. More Urbanisation makes wealth effects less important (effect of ln_tot_exp on log(x_educ) is more significant for TNZ).
3. Private education seems more tied with higher expenditure in TNZ (historical reasons)
   a. predominant education is primary education
   b. role of parental education levels is higher.
4. The role of social factors is strong in both the economies
5. Robustness Checks:
   a. Significance of assetdensity is repeated in the robustness check with changed asset density boundaries
   b. Below-median : we see HW effect stronger in TNZ for below-median HHs.
6. Key Takeaways
   a. urbanisation may help reduce HW effects and rise in education expenses is likely in the future
   b. In absence of long-time-series, we cannot clarify relationships between education and mobility (a theoretical exploration takes this up in Chapter 3).

1. References
   a. See Table 19 Page 101
   b. See Table 21 Page 103

Chapter 3 - Intertemporal substitution with status consumption

1. Status consumption such as education is considered an ‘investment’ while using an intertemporal substitution (IS) approach (otherwise it would be futile).
2. Probability essentially provides a measure of the end-goal of status investments in the IS approach. Thus, status goals of the consumer are equated with her economic goals
3. *Literature’s view* - We look to clarify two issues:
    a. It is often suggested that lower inequality has had a positive effect of status consumption while higher inequality also seems to be having a positive effect on status consumption
    b. The effect on status consumption on growth or savings is not clear either
4. The particular interpretation of consumption only considers investment with material wealth (e.g. education).
5. Notice: Assumption 3 allows W(nu) to be long-term (there is a bit of ambiguity about it but population condition enforces a long term W(v)).

Results from Chapter 3

The model indicates that the optimal status consumption/investment rises with income differences in the short-term - but the population constraint itself implies a downward pressure on status investments in the long-term.

Summary and Conclusions

- Chapter 1 shows how the herd-behaviour (habit) towards certain goods (affecting both price and demand) could be *limited by wealth differences*.
- Chapter 2 shows that local-regional variations may often dominate status concerns (from an aspcon persp). A desire to get urbanised may make an important part of aspirational demand (also shown by Porzio et al) and thus continue to increase aspcon.
- Chapter 3 presents the view that such a rise is not sustainable in the long-term since population constraint alone has non-linear effects on status investments.
- ***Conclusion:*** Aspirational consumption - could mean different things - but it is likely to be limited in the long-run - both due to wealth differences (limited outreach of aspcon) and population constraint (inequality lowers promotion chances/mobility).