

Consumptions of Urban and Rural Households in China: Current Status and Policy Recommendations

Jianrui Wang, Shijiazhuang University of Economics

Household expenditure share refers to the ratio of the expenditure of each item to the total expenditure of households, which indicates the demand composition of every commodity and the consumption level of people. Household consumption accounts for about 80% of total consumption in China, so that the variation in the consumption of households is important to the policymakers. Using Extended Liner Expenditure System (ELES), the method of affecting factor analysis and the data from China Statistical Yearbooks, this paper focus on analyzing the features of quantitative changes in expenditure of urban and rural households in China.

1. Composition Analysis of Living Expenditure of Urban Households from 1992-2001

1.1 Marginal Propensity to Consume (MPC) for Urban Households from 1992 to 2001

Use the data about living expenditure of urban households on China Statistical Yearbooks from 1992 to 2001 to estimate the fundamental expenditure of household and MPC for every good consumed in each year. We draw the following conclusions:

The MPC is above 0.62 during the calculating period. However, it went down gradually from 70% to 63% more or less. Comparing to the developed countries when their per capita income was \$1000, MPC 60% is a lower consumption level. Furthermore, the MPC is still to go down expectedly.

The MPS is above 30% during the period. It went up to 35% at the end. As a result, a large amount of saving deposits stays increasing in China. 80% of which is the saving of urban residents, so encourage people to consume or invest more is very important.

We also get the information that the Engel Coefficient (EC) went down year by year. This shows the living position of urban residents approaches a higher level than before.

1.2 Income Elasticity Analysis (IEC) for each item

A higher IEC for an item implies that as the increase of people's income they will spend more money to consume the item. The article also calculates the IEC for each item consumed for urban residents. When the income of residents increases, they will use more money to consume household facilities articles and service (HFAS); transport, post and communication service (TPCS); miscellaneous commodities and service (MCS); recreation, education and cultural services (RECS).

2. Composition Analysis of the Living Expenditure of rural Households from 1985 to 2001

2.1 The Expenditure Composition Variation

Over 16 years from 1985 to 2001, the consumption pattern of rural households has been changed a lot. First, EC went down from 57.79% to 47.71%, 10 percent down totally. This shows the consumption pattern of rural residents in China has transformed from poor country group to rich countries group. It is six years later than urban to complete this transformation.

Clothing and HFAS consumption decreased gradually; residence consumption once decreased, but rose after the year 2000; medicine and medical service (MMS) and MCS increased year by year; TPCS and RECS increased rapidly. This is because the rural households pay more attention to recreation and their children's education.

2.2 Change Extent in Consumption Composition

Change extent of consumption composition refers to the average variation of the composition for each year. The composition variation tends to change rapidly over 16 years from 1985 to 2000. However, the affecting degree of each item is different in different period. From 1985 to 1990, the main changing factors are clothing, RECS, food, residence and MMS. From 1990 to 1995, residence, RECS, TPCS, MCS and clothing are main changing factors. From 1995 to 2001, food, TPCS, RECS, MMS and residence are main changing factors. Therefore, we can say that food, residence and MMS are basic consumption for rural residents. Education, communication and transport consumptions are more important for them than before.

3. Conclusions and Policy Suggestions

In general, the main features of households consumption is that the EC and the MPC goes down, the MPS goes up. There should be proper policies to regulate the consumption pattern in order to increase the living level of residents, to enhance production and to develop economy.

3.1 Increase People's Income

Income is main source of consumption. The government should take measures to increase people's income, especially to increase rural residents income, to reduce income difference between poor and rich, to create employment opportunities and guarantee the unemployed people minimal living condition.

3.2 Encourage People to Consume

3.2.1 Reduce People's Anticipated Uncertainty About Their Life.

Behind the motive to save money is the extreme worries about future. People worry about their work stability, their old life, their children's education and marriage and so on. Especially in China, everyone wants to provide a strong economic foundation for children. This tradition has been lasting over thousands years and still inhibits people from consuming more.

3.2.2 Lead people's propensity to consume.

Consumption can be at different levels. When people satisfy with a lower level they will pursue a higher consumption level. In 1970s people sought four products (bicycle, sewing machine, watch and radio) which cost about ¥100 each. In 1980s instead the above mentioned four products, new six products (color TV, refrigerator, watching machine, electric fan, radio and record, and camera) were in fashion, which cost about ¥1000 each. In 1990s computer, automobile, apartment residence which cost ¥10,000 or ¥100,000 each have been the leading consumer products pursued by Chinese consumers. Now the old four products have been in every rural ordinary household. The new six have been saturated in urban households. The demand for ¥10,000 or ¥100,000 products is going up by a unbelievable speed. Therefore, the producers should know the consumption demand at every consumption level in order to produce proper goods for different people to consume. The policy makers should also know the demand structure in order to lead people to have an optimal consumption.

3.2.3 Suggestions for Food, Clothing, Residence Consumption

The consumption ratio of food goes down as the income rises. This is a law that has been proved by many countries. The food consumption share in China, however, stays in a big part of consumption. While the EC has been a lower level than before, it still higher than the developed countries when the per capita incomes were \$1000 in these countries. Furthermore, we could not say people's livelihood condition has been improved only by the EC, which may be caused by many factors. So the government should take care of the prices of grain and some fundamental foods in order to keep the country's political and economic stability. The factories should produce high quality and new products of foods in order to meet the demand. The consumption ratio of clothing goes up first, then goes down as the income rises from the experiences of many countries. According to the study of consumption composition from lower level income to higher level income in China, the consumption of clothing also complies with this pattern. The clothing factories should develop all kinds of clothing in order to meet different demands. However, the government need not develop special policy in clothing consumption.

Housing consumption in China experienced two stages: before and after the economic reform. Before the reform the rights of residence property belonged to the state or the working units. Residents needed not pay for their housing, but the living environment was terrible. After the economic reform people must buy houses or apartments themselves. At the beginning of the reform this once was a big burden for consumers. Afterwards as the income increased the demand for houses or apartments went up quickly. Now this reform has been completed and the demand for residence keeps in a stable way. People's residence environment has been changed a lot. The consumption trend for housing should still keep stable or slightly go down. The government, however, should make policy to prevent housing market from speculation.

3.2.4 Suggestions for MMS consumption

MMS consumption experienced the same proceeds of residence reform, but MMS reform does not conduct thoroughly like the housing reform. Up to now expenses of MMS of employed people mostly depend on their company or organization, especially for serious diseases. So this consumption item goes in a stable way for years and may go slightly up in future.

3.2.5 Suggestions for HFAS; TPCS; RECS; MCS.

The consumption items under this heading belong to luxury goods. As the income rise the consumption ratios for this category will go up. They all have a higher IEC and all are higher variation affecting factors

in consumption composition from our preceding analysis. Now the demand for these kinds of commodities is going up strongly in China. For example, high quality food and clothing, comfortable housing, higher education and to go abroad to get education, mobile communication, internet, automobile, tourism, woman's beauty consumption and so on, are going in fashion in higher and highest income groups. These kinds of consumption will be a driving force for economy. The government should take proper policies to encourage and give incentives for these consumptions, such as tax preferential policies, consumption loan, road and communication construction etc. The producers should develop the suitable goods to meet the demand. All of which, in turn, will flourish country's economy.

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