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Investment Options for Household Sector for Overall Welfare [In the Perspective of Global Economy]

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Abstract: ***The economy is characterized by a large number of issues for its benefit and welfare. Many challenges of different kinds are face during the process of economic development and growth in global perspective. Presently, an observation is made that as to how the investment may gainfully be made for the benefit of household sector with a view to raise the overall living standards both in rural and urban areas. Household sector is characterized by the demand for different categories of food items, non-food items, services and other miscellaneous items of utility in the household. It is rightfully observed that the demand for different items in the household sector if is efficiently and sufficiently is met, there would be an enhancement in the overall living standards of the people in general. Keeping such considerations in view, present observation regarding the investment options for the household sectors for overall benefit and welfare is made particularly in the perspective .of global economy. This would be of much crucial understanding in present times when the ban and barriers are being eliminated between the countries and no doubt within the country. Prior to frame the policies for investment planning for household sector, it is all the more important to understand the very nature of the household and its different requirements for reasonably a better living standard. Household is defined as a group of persons related by blood, marriage or adoption living under the same roof and sharing a common kitchen. A single person is considered as constituting a household if he maintains a kitchen. Except for newly born babies and newly wedded brides who are counted as members of the household irrespective of their location, a person should have stayed in the household for at least six months during the reference period to qualify as a member of it. This may rightly be defined as the household. Urban households refer to the totality of all households located in the urban areas while rural households refer to the totality of households located in the rural areas. A distinction between the urban and rural areas needs not to be explained here in accordance with the scope of the present papers.***

Keywords: Earner, Occupation, Gross Income

1. Hypothesis

Effective Investment planning for better living standard of the household would depend on the reasonable estimates of the household demand for food items, non-food items, durable goods, non-durable goods and services besides other factors.

A few significant terms in the context of the household may be defined as given below:

Earner is defined as a person who depends for his livelihood on his own employment income or employee compensation or property income or a combination of such incomes. Persons receiving pensions or contributions are not considered as earners. Family workers actively engaged in helping in fanning, business, profession or craft are considered as earners even if they receive no separate income.

Occupation refers to the type of work done; however, for the purpose of any survey an occupation-status composite basis for classification is adopted and so, chief earners are classified into five groups namely (a) self-employed farmers, (b) self-employed businessmen, craftsmen and professionals, (c) Wage earners and (d) salary earners; and the remaining persons are classified as not gainfully occupied persons. The same applies to both rural and urban areas.

Gross Income of a household is defined as a flow of receipts net of expenses incurred in the process of production. Gross receipts are so defined as to include all receipts of the household relating to the production activity in which its members are engaged either in primary sector or in secondary sector or in tertiary sector. The various sources of income to a household may be identified as given below:

a) Farm and non-farm enterprises
b) Wages and salaries
c) Property income (Rent, Interest and Dividends-Operating Surplus)
d) Pensions and regular contributions (transfer payments or transfer income)
e) Any other source like wind fall gains.

If depreciation or capital consumption of all household assets is treated as an expense and deducted from gross income, the balance will be net income. Net income is thus defined as gross income net of depreciation (minus payment of direct taxes).

Gross saving is defined as the current income less current consumption. This definition also corresponds to the concept of change in net worth but only after making adjustments for capital transfers and capital gains and losses.

Net saving is defined as gross saving less allowance for depreciation.

Gross Investment is defined as the amount of additions or improvements to the physical and financial assets held by the household during the period considered.

Gross Investment minus depreciation gives net investment.

Depreciation, representing used up value of income yielding physical assets during the period considered, is estimated for building property, business and farm assets excluding land and consumer durables.

In fact, the investment planning for the household sector would obviously depends on as to how the income is received by the household, the pattern of distribution of income and wealth in the economy, the occupational distribution of the work force in the economy, the price movements and other monetary and fiscal measures adopted in the economy. This becomes quite meaningful in the present state of adopting the policies of economic reforms in the economy since 1990-91 which comprise liberalization, privatization, globalization (LPG) and modernization.

2. Broad Determinants of Household Investment

Investment made by households during any considered period would consists of-

1. Investments in Physical Assets
2. Investments in Financial Assets
3. Investments in Consumer durables
4. Investment in Consumer Non-durables and services

Investment in physical assets (purchases less sales) and the actual expenditure on construction or improvement of assets. Investment in financial assets consist of net purchases of shares, bonds and securities and gold and jewellery plus net increases in bank deposits, non-bank deposit, small savings and payments to life insurance, provident funds and chit funds. The estimate of investment so made is to be treated as a partial estimate of investment because it excludes business and farm inventories and cash holdings. Hence changes in currency holdings and business and farm inventories are also included in estimating such investment. Investments for consumer durables, non-durables and services would depend on the demand of such goods by the households in general.

The economy seems to register an annual growth rate of 8.0 percents in 2007 as compared to 3.5 percent in 1950. Contrary to the growth of economy, the availability of safe drinking water is still accessible to 77.9 percent of the total population in 2001 as compared to 38.2 percent in 1981. Moreover, the population has touched the scale of 113.6 crore in 2007 as compared to 37.5 crores in 1947 : the per capita dept has increased approximately by three times in 2007 as compared to in the year 1951, : unemployment rate seems to rise : etc..

Such statistical facts obviously indicate the necessity for a careful investment planning for the household sectors.

Quite recently, the Central Statistical Organization (Planning Division), Government of India has released a few estimates relating to the household budgets for the year 2006-07. The report shows the average expenditure by the household on consumer goods on the basis of monthly income of the household accordingly. The results are as given below:

(2006-07)

Item of Expenditure	Percentage Expenditure(Per Month)
Food Grains	9.9
Pulses	1.1
Sugar and Khandsari	2.6
Oil and Oil Seeds	1.7
Fruit and Vegetables	7.4
Milk and Milks Products	6.3
Meat, Fish and Egg	3.6
Coffee, Tea and Coco	0.6
Spices and Other Foods	2.0
Beverages and Tobacco	2.3
Clothing	4.6
Footwear	0.5

Source: CSO-February, 2008

Above estimates of monthly expenditure on consumer goods of an average household on the basis of monthly income clearly indicate that a major proportion of 37.5 percent is spent on food items (Non-durable goods) while 5.1 percent is spend on non-food items (durable goods). These may be considered as the representative items of consumer expenditure in the basket of a household. But, it clearly shows that efficient investment is required for the provision of food items for the average household.

Another survey by McKinsey Global Institute reports that Each Consumer in India will spend over Rs. 200 a day, on an average, by the year 2025, steered by a 10-fold increase in the country's middle class population and a three-fold jump in household income during this period.

The dramatic growth in India's middle class, from 50 million to 583 million people, will power this growth, the study says.

India's rapid economic growth has set the state for fundamental change among the country's consumers but with the help of significant changes in the investment planning for the household sector. The same energy that has lifted hundreds of millions of Indians out of desperate poverty is creating a massive middle class but centered in the cities. If India continues its recent growth, average household income will triple over the next two decades and it will become the world's fifth largest consumer economy by 2025.

Undoubtedly, this all will depend on as to how the policies are framed for investment planning for the household sector for future socio-economic needs.

A few broad inferences roll down on the fact of investment planning for the household sector in the national economy.

1) Gross investment in owner occupied houses (value of purchase or own construction plus the value of addition, alterations, repairs and maintenance).
2) Gross investment in other property which includes house other than the currently occupied one, commercial property such as a shop, vacant plot and farm houses (value of purchases plus own construction less value of sales).
3) Gross investment in consumer durables (value of purchases less sales).
4) Gross investment in farm and farm equipment (includes net purchase of land, net purchase of livestock, improvements to land and irrigation facilities, net purchase and value of self-made agricultural implements).
5) Gross investment in business including net purchase and value of self-constructed building and machinery and equipment and net increase in the value of business stocks.
6) Payments to life insurance, provident fund and chit funds, net of any transfer received or debts obtained from these institutions.
7) Net increase in bank deposits (current accounts, saving accounts and time deposits including accounts in co-operative societies). Net increase means increase less withdrawal and / or liquidation of the corresponding asset.
8) Net increase in all forms of savings including post office savings and prize bonds.
9) Net increase (value of purchases less sales) in corporate securities (shares and bonds).
10) Net purchase (purchases less sales) of gold and jewellery.
11) Cash on hand.
12) Net increase in liabilities (borrowings less repayments of consumer debt and net debts incurred for financing investment less net lending.
13) Net capital transfers received (other than from life insurance, provident and other funds) which include inheritances and the value of gifts and dowries received less those given out.

A large variety of challenging issues may be included in the present type of paper and observation but this seems to be beyond the scope of the present presentation, hence are avoided.

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