

Measures to Raise the propensity to Consume

The propensity to consume remains stable during the short-run due to the existence of certain psychological and institutional factors in the society. But it is significant to study the measures which tend to raise the propensity to consume. Following are the important factors to raise the propensity to consume: -

① Income Redistribution: - Redistribution of income in favour of the poor tends to raise the propensity to consume because the marginal propensity to consume of the low income groups is high in comparison to the rich. Therefore, the propensity to consume can be raised by transferring income and wealth from the rich to the poor. This can be done by the State through its taxation and public spending policies. The provision for free education, free mid-day meals, free health services, low-rent housing, free housing etc, indirectly helps in increasing the income of the workers and tends to raise their consumption expenditure.

② Increased Wages: - If wages are raised, they will have a direct effect in shifting the consumption function upward. But a policy of high wages adversely affects the level of employment in the economy for it is not possible to raise the marginal revenue productivity of labour in the short-run. In the absence of increase in the marginal revenue

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productivity of labour and the economy is likely to experience unemployment. Therefore, the long-run wage policy should be such that wages increase with the increase in labour productivity. This will tend to raise the level of consumption in the economy.

(3) Social Security Measures:- Social security measures

tend to raise the consumption function in the long-run, provisions for unemployment relief, medical facilities, old age pension etc. remove future uncertainties and the tendency to save is reduced on the part of the people. So, social security measures tend to raise the consumption function both in periods of prosperity and depression.

(4) Credit facilities:- Cheap and easy credit facilities help in shifting the consumption function upward. When loans are easily and cheaply available to the people, they buy more durable consumer goods like scooters, TV, refrigerators etc. This tends to raise the propensity to consume.

(5) Advertisement:- Advertisement is one of the most significant way to raise the propensity to consume in modern times. Advertisement and propaganda through the various media of radio, TV, cinema, newspaper etc. make the consumer familiar with the uses

products. The consumers are attracted toward them and they tend to buy them. This raises their propensity to consume. ②

⑥ Development of The Means of Transport:

well developed means of transport also tend to shift the consumption function upward. The movement of goods from the manufacturing centres to the different parts of the country becomes easy. The size of the market expands. The prices may also fall due to the reduction of transport costs. Things are available to the people in their respective towns. All this has the tendency to raise the consumption function.

⑦ Urbanisation: - urbanisation helps to raise the propensity to consume. When urbanisation takes place, people move from the rural to the urban areas. They are enamoured by new articles and influenced by the demonstration effect. This tends to shift the consumption function upward.

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