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Festive Economy and Mr. Keynes

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Christmas is around the corner, and overspending is a financial hangover one deals with every year. Briefly stating some of the Christmas expenditure data:

1. About 10% of Europeans go into debt due to Christmas shopping.
2. Almost 41% of Americans are willing to take on debt due to gift shopping.
3. America spends nearly \$6.1 billion on Christmas trees.

In 2021, the Christmas Price Index (CPI) in the United States was \$41,205.58. That implies a 5.7% growth from 2019 (\$38,993.59). Let us quickly look at the Indian scenario too. India is a country known for festivals. I would specifically like to share some data from West Bengal, especially since UNESCO inscribed 'Durga Puja in Kolkata' on its Representative List of Intangible Cultural Heritage of Humanity.

In 2018 a newspaper report (Rediff.com, 17th October, by Atanu Biswas) suggested that the Durga Puja festivity offers an annual turnover of 1 lakh crore Indian rupees. Methodology of measurement across various other reports also focuses on the greatly valued brand name of Durga puja. Yet another column in Times of India valued it at around 15,000 crores in 2019 (TOI, 12th October 2019) for Bengal. I am sure, many religious or other festivities generate significant business for the local economy, such as Ganesh Puja in Maharashtra and other parts of India.

The export of God and Goddess images/idols with the growing quantum of the diaspora in the Western and other worlds also fetch the entire annual income of many artisans. Thus it is international trade that also counts. But my intention is not to glorify the issue, but to highlight its link with the standard macroeconomics that we learn in our classrooms.

The local economy is stimulated by the extra spending that floats around during festivities. One can understand the process to some extent when families spend a lot of money buying

gifts for one another. For that matter, festival bonuses can also do the trick, provided none of those suffer from expenditure switching impact. Restructuring the previous sentence in simpler words. I can give you a bonus, but at the same time cut back my investment expenditure.

Over the last two decades rate of public investment in our country has stagnated at around 7% of GDP, and private investment crawled with around a 3 % growth over the entire period. Colorful festivities happen all the time with local Melas, regional fests organized with governmental aids and with particular focus on local business, such as handicrafts, garments, etc. Whatever it is, ancillary activities flourish all around the spot. The question is, whether independent of anything else, we see any temporary boost in our propensity to spend during any festival.

As we are generally aware that the level of income and growth cannot be answers to similar types of queries. Though non-economists to economists, and particularly politicians sometimes confuse these categories. The rise in income can easily happen when the growth rate falters drastically. The pandemic is creating a substantial decline in GDP today, which is stimulating the growth rate tomorrow, thus shrinking the denominator.

In the simple Keynesian model, taught, remembered, and practiced in every corner of the world, the value of the multiplier critically depends on MPC. The extra spending people indulge in with an extra dose of income is pivotal by creating income for and spending by others. Hence, it leads to a multiplier effect on aggregate income. Interestingly, even if I usually spend half of my income on my regular consumption, there might be occasions when I spend a little more. If I earn INR 100 as income over 10 days and spend INR 5 each day as the daily MPC, the spending propensity will be 50%. If I spend varying proportions daily, it may average out to be 50% over 10 days. But if I spend 50% for 9 days and 60% for the 10th day, the average will rise, the multiplier will be greater. Events that induce a sudden jump in MPC without the negative impact on other days will surely increase the multiplier and hence aggregate income.

The way we model human consumption behaviour in standard economic textbooks suffers from our apathy towards bringing in well-observed psychological features, even with tons of

experimental evidence in scientific journals and making the representative average agent almost a mythical object. If we internalize the simple fact that a cluster of people gathered in a place for entertainment tends to spend more than usual, we can easily see why organizing festivals can have a big payoff, even if we net out the cost of hosting them.

When I spend INR 100 on something, there is an impact. But when 10 people spend 10 rupees each, maybe another 10 watch them doing it and spend 100 rupees more. There is a positive externality of group spending which is stimulated by festivals. This is very much different from the example where I buy gifts for you and you buy for me. There is a mass psychology of overspending that we cannot deny. So, it is not only aggregate consumption, by how many are visibly incurring such expenditure is also important. So other things remaining the same, two identical Keynesian economies in all respects will have different levels of income if we organize fests in one place and forbid the other to have fun.

Often status-seeking individuals compete in consumption, tend to save less, and flaunt spending. Those who spend more will be part of a richer community in a Keynesian world. Of course, other things must be the same. India has a lower saving/GDP ratio is still poorer than China although both have the same level of income, an Indian will spend more. As the Chinese have much greater income, aggregate spending will be much greater there. But it is no wonder that Indians can spend a lot during festivities. If Mr. X's daughter ties the knot via destination wedding, his neighbour Mr. Y will also do the same for his daughter. Of course, in the process, India's foreign trade multiplier can be negative due to our money being spent abroad. But this consumption externality is bound to affect aggregate income. It is not merely that consumption is a function of income, but also of how many are visibly spending it and how many are stimulated by that information. If a small fraction of the population spends the same amount of income as spent by a large group of people, the MPC might not be higher. Hence it will depend on the income distribution also. Thus, the policy of year around government support for local festivities is a reasonably good policy, when both public and private rates of aggregate investment seem to languish for a long time.

Hopefully, students, when they read their Keynesian economics next time, will ask their teachers whether this is a good way to recast the multiplier theory for a country with never-ending festivities.