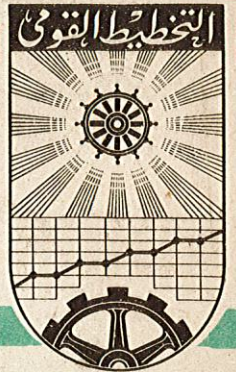


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Aspects for the Rationalization
of Consumption Planning
in A.R.E.

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I. The Importance of Planning the Final Consumption

In developing countries, national planning aims at the achievement of development by means of a general socio-economic plan; through which predetermined goals are set for implementation. In order to meet such goals some basic principles have to be met. i.e. Integration and comprehensiveness-In this sense, all macro-economic variables are considered and controlled within the process of plan development, and thus the plan is directed towards the realization of its predetermined goals.

Consumption planning is considered as a main component of national planning. It aims at determining the total planned consumption and distributing it among its different related components such as: final private & public consumption. The final private consumption is divided into commodities and services.

Consumption planning in developing countries did not receive considerable attention as investment planning. This is because investment resources are relatively scarce in such countries forcing them to look for more rational ways of resource distribution.

Planners in their search for such rational ways, may exploit their efforts to the extent that they may not be able to give equivalent attention to other important variables.

The result forces these planners to be sufficed by rough estimation procedures which are not enough to meet a well planned level of values for these later variables, especially knowing their close relation with investment.

Consumption planning is thus important for the following reasons:

1. The determination of resources to be allocated for re-investment is derived from the available economic surplus, which in turn is derived from the production activities of the preceeding year/years. This is because, There is a reverse relation between the two variables (Consumption & economic surplus). The increase of the economic surplus). The increase of the economic surplus to be re-invested is achieved through decreasing final consumption and vise. verse.

The final state depends upon the decision related to final consumption whose planned amount is determined between minimum level (subsistence level) and maximum level (above welfare level) and leaving a surplus for financing available production capacity.

2. Directing the structure of production towards final planned consumption needs without the interference of the free market forces will avoid any economic waste which might exist as a result of producing unneeded products.

The impact of the free market forces may increase the stock of some products and exceed their acceptable norms, or it may result in a shortage of demand causing a price increase of demanded commodities.

Such a situation may cause the inability to meet demands or to be forced to increase imports. On the other hand, increasing imports may cause structural disequilibrium on the balance of payments.

3. Determining the level of welfare for individuals:

The final consumption planning determines the planned rate of growth for the preceeding variable. If the consumption rate of growth is equivalent to the population rate of growth, therefore the per-capita consumption will remain unchanged, which if this rate exceeds the population rate of growth, therefore, the permitted welfare level increases. On the other hand if this rate is less than the population rate of growth therefore, the permitted welfare level decreases. This means that the economic surplus for investment increases, assuming that the distribution of final consumption among the different expenditure variables is constant. It is possible to increase the level of welfare for some expenditure groups through the a doption of income redistribution policies directed towards any present income groups based on the decision of income redistribution.

The final goals of the five year plan 1982/83 - 1986/87 for final consumption are as follows:

- The final private consumption increased from 14550.7 million L.E. in the year 1981/82 to 18630 million L.E. in the year 1986/87 based on 1981/82 prices and with 5.1% average per-year rate of growth.
- The average propensity of private consumption decreased from 70.2% in the year 1981/82 to 59.5% in the year 1986/87.
- The rate of final per-capita consumption have exceeded the rate of population growth. This is because the rate of population growth have reached 2.78% as a yearly growth rate leading to an increase of 2.3% average per-capita yearly consumption rate:
- The relative share of private consumption service increased from 12% to 14.5% during the comparative period.

II. The Main Problems of Consumption Planning in A.R.E.:

1. Shortage and the time flow of all required and necessary data on consumption planning to be received by the planning bodies. This is due to the following factors:
 - 1.1. The difficulty of acquiring data on goods and services produced by the private sector, considering its increasing role in production. For example, the production of beverages and furniture in addition to mostly all personal services.
 - 1.2. The difficulty of acquiring data for the open-door production project that work under the authority of law No. 43 of the year 1974, concerning the investment of Arab, foreign and free-zone funds. This law does not enforce such projects to give data and information about their activities to any source.

1.3. The difficulty of acquiring detailed data on commodity stock, since the only available data in this context is the consumption of supply commodities only made available to the planning authorities. These commodities consist of 15 out of 85 items to be planned. This problem of commodity stock concerns private and public sectors.

1.4. The inability to determine the value of self consumption since such products are valued by farm prices and not by production prices.

1.5. The available data for individual variables differs from one source to another, thus becoming inconsistent. For example, the data of foreign trade made available from central Bank differs from CAPMAS (Central Agency for public Mobilization and Statistics) data.

2. Difficulty in measuring some factors influencing final consumption.

It is difficult to estimate the impact of some non-quantifiable variables on the final consumption, such as the demonstration effect. the planning agency is forced to consider these variables as constant variables that does not have any effect on final consumption (otherwise if detailed data can be found on any one of these variables, the planning agency in this case can be able to assume a number of principles on which basis estimation can be made i.e. the number of family members-as a social factor," or the effect of external migration-as" a political factor").

3. The Reluctance to Reduce Consumption. Planners in developing countries are faced with the problem of decreasing average consumption resulting from the low level of monetary income.

The government, in this case, finds it difficult to either reduce or maintain such a level, in order to increase the planned economic surplus that is required for investment.

This problem demonstrates the conflict between short term and long term considerations in the planning process for development. This forces planners to give more consideration to the social factors while determining the amount of planned consumption.

This is achieved through the rational increase of the average per-capita final consumption so that such increase does not absorb all economic returns. This in turn gives a forward push to development and increases the time element of its fulfilment.

This situation may cause fluctuation trends in the development process impeding the realization of comprehensive development. All these factors makes it essential to develop an accurate balance between the short term social variables and long term economic variables.

The main constraints of increasing final consumption that planners face are as follows:

1. Development accompanied by an increase of population growth rate, which increases the final consumption, even through the rate of average per-capita consumption remains unchanged.
2. The increase of job-opportunities made available through new projects. This increases the amount of paid monetary income mainly absorbed by consumption.
3. The increase of marginal and average propensity to consume for the majority of the population is due to the low income they attain as a result of mal distribution of income.

III. Considerations to be taken into account in planning the final Consumption:

While setting up the final consumption plan, in the framework of the national plan, some basic considerations should be taken into account for rationalizing the process of consumption planning and for achieving consistency and comprehensiveness in the national plan. These considerations are as follow.

1. The planning agency should determine the minimum level of data required for planning the final consumption. This data and its related information constitute the key inputs and core of the consumption planning process. Moreover, through this role, the planning agency can figure out the discrepancy between the available and required data so as to identify methods and policies needed for filling this gap, and to improve the planning function.

The following are some data that have to be made available in this concern:

- a. Sources of domestic supply for each commodity or service, their productive capacity, problems of production, solutions proposed, the geographical distribution of such sources of supply, potential markets, quality of production, consumers tastes, the competitive or integrated relationships among different sources.
- b. Imports needed to make available the supply of some commodities, origins of these imports, sources of financing imports (foreign currencies, loans, credit), the potential for import substitution and costs accrued, factors determining prices of imported commodities, circumstances prevailing in the international markets of these commodities (competition, monopolistic competition or monopoly), the impact of these situations on the international supply of these commodities, and the percentage share of the Egyptian Economy.
- c. The various uses of the commodity or service available (intermediate and final consumption, inventory, exports). Factors that decide the distribution of commodities between different uses and their effects of the domestic supply should also be defined.

The identification of data required for planning the final consumption is of a crucial importance for filling the gap between required and available data. Also the determination of data sources is of equal importance for their effectiveness in upgrading the methods of data collection. To attain this end, the current methods of data collection related to final consumption have to be:

reviewed and assessed, and problems encountered during the process of data collection and means of overcoming them identified.

2. greater concern should be paid for conducting studies that develop the process of consumption planning.

Achieving comprehensiveness and accuracy in the data collection process should be accompanied by examining various alternatives presented to the planning agency to select the most appropriate one which achieve the greatest interaction with elements in the national plan.

The most important studies that can help in this field are as follows:

- a. Developments in final consumption patterns (after distributing it between goods & services) during a long-term period that covers 10 years at least, aims at distinguishing the determinants of these patterns and investigating their impacts and the interrelationship between them and other elements.
- b. The impact of adopted policies (fiscal, pricing or monetary) on the size and patterns of consumption to decide whether these policies can direct final consumption towards some specific aspects that do not serve the planned developmental goods.

It is important, too, to examine the extent of consistency and integration among these policies in order to avoid any possible conflicts among them.

- c. The effects changing public economic policies related to final consumption such as: (changing the range of subsidized goods, the taxation policy, or import taxes, the changing investment policy in

particular, and the public expenditure policy, in general), should be reviewed as these policies have various effects on income distribution and redistribution.

- d. Demand elasticities: either income, expenditure, price, substitution elasticities) and estimating these elasticities according to expenditure groups or income branches-according to basic commodities or groups of commodities or services consumed.
- e. Estimating the amount of saturation generated by consuming certain quantities of goods or services so as to curb or eliminate over consumption, particularly that resulted by the demonstration effect.
- f. The age structure and possible changes over a medium term period and their effects on the size and patterns of consumption: It is of at most importance to develop statistical methods that can immediately follow up the changes in age structure without have to wait for the 10 year conducted general census.

3. Results of the family budget surveys should be made use of in planning consumption. It is worthy to mention that the CAPMAS had conducted 4 family budget Surveys in 1958/59, 1964/65, 1974/75 and 1981/82. Final results for the first three surveys were published. As regards the fourth survey, only preliminary results are available, so far.

For this reason the Ministry of Planning could not benefit from the fourth survey in estimating the size of consumption set forth in the five year plan (1982/83, 1986/1987), despite the fact that this survey was conducted in 1981/1982, which is the base year for the National Plan:

The absence of linkage between consumption planning process and Family budget survey has resulted in discrepancy between the main expenditure groups that are examined by these two Agencies. Besides, no serious concern is paid to expedite publishing the final results of the CAPMAS surveys. It is important to indicate that great efforts are devoted to upgrading methods of preparing and carrying out the said surveys. This means that it is possible to generalize their results with great degree of accuracy. Such Efforts appear clearly in the methods of estimating size of samples or selecting them in a way that it may represent the population concerned accurately, (i.e. the number of families surveyed in the Family Budget surveys increased from 1.35 per thousand in 1958/1959 to 1.9 per thousand in 1981/1982). Time horizon during which data were recorded has been developed. In 1958/1959 survey, all spending items were recorded on the basis of the monthly expenditure undergone through the whole year. In 1964/65 survey, the time horizon was not similar for various commodity groups. In 1974/1975, some data were covering the whole year and others were covering only the last three months of the year surveyed.

However, in 1981/1982, data were collected for the whole year for commodities that are not consumed periodically, while data on other commodities were recorded monthly.

For achieving close linkage between the process of consumption planning and Family Budget Surveys, the following considerations should be kept in mind:

- Family Budget surveys should be timely and regularly conducted so as to follow up and record on the spot all developments in the direction of consumers demand.
- Developing methods of presenting the findings of surveys. The correlation between family incomes and expenditures should be investigated. It is necessary also to disaggregate data of income by income groups to reflect family economic level and its effect on patterns of consumption. Items included in the commodity and service groups should be unified by both CAPMAS and the Ministry of planning.
- Setting up research programs that cover the future period in order to feed the planning process, particularly that related to consumption planning. In this way, the family Budget surveys would be an essential part in the process of formulating the national plan.