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Priorities of Implementation of Households' Consumption Function

Summary: State's incomes are sources of improvement of humans' lives and welfare, as well as sources of development of economy and every field. Raising incomes is a very important objective for society. In Georgia there are two problems related to incomes: raising of total incomes and reducing the inequality of distribution. In Georgia index of households' incomes is Gini coefficient. It shows the deviation of actual distribution of incomes related to equal distribution line. If economical activities will develop in Georgian households, it will be possible to decrease Gini coefficient step by step and to achieve the equality of incomes.

Keywords: Indices of incomes, Gini coefficient (index of inequality), Indices of poverty.

Introduction

State's incomes are sources of improvement of humans' lives and welfare, as well as sources of development of economy and every field. Raising incomes is a very important objective for society. Attainment of this objective depends on many factors, including level of technologic and economical development, efforts of private sector and government, external situation, natural conditions and many other hindering or supporting factors.

In Georgia there are two problems related to incomes: raising of total incomes and reducing the inequality of distribution. The recent period of social and economical transformations had negative impact on the incomes of state and majority of population. Although it's true that state's and households' incomes are increasing intensively in the recent period, but average level of income is still quite low. The inequal distribution of income also deepens the problem.

We must estimate the indices of incomes and expenditures of households, operating at the market of consumer goods, to better describe the state of affairs. Besides, such indices show the trends of changes of economical situation and give us impression about the radical and qualitative transformations in whole national economy. The results of study show that households' average monthly incomes are not enough to satisfy even the minimal needs of population (Table 1).

Table 1. Distribution of average monthly incomes per household, 1996–2012

Indices	1996		2001		2006		2011		2012	
	GEL	%	GEL	%	GEL	%	GEL	%	GEL	%
Cash inflows and transfers	76.1	76.9	130.5	87.6	257.0	84,6	512,0	83,6	583.0	83.6
Including										
Hired labour	26.6	34.9	52.7	40.4	107.2	41,7	214,3	34,9	247.3	35.4
Self-employment	22.2	29.2	24.3	18.6	40.5	15,8	54,7	8,9	66.7	9.6
Selling of agricultural goods	15.3	20.1	21.4	16.4	32.2	12,5	47,1	7,7	48.0	6.9
Real assets (rent, percent, deposits)	0.7	0.9	1.6	1.2	1.4	0,6	5,5	0,9	4.3	0.6
Pensions, scholarships and aids	7.2	9.5	12.3	9.4	32.5	12.6	87,0	14,2	96.2	13.8
Abroad parcels	2.3	3.0	8.5	6.6	15.0	5,8	29,0	4,7	28.7	4.1
Relatives' aids	1.8	2.4	9.6	7.4	28.2	11,0	74,3	12,0	91.9	13.2
Other cash assets	21.0	23.1	18.5	12.4	46.7	15,4	100,6	16,4	114.6	16.4
Including										
Selling of real assets	9.9	38.1	7.0	36.2	6.9	14,8	16,0	16	21.0	18.3
Lending money and using of deposits	13.0	61.9	11.5	63.8	39.8	85,2	84,5	84	93.6	81.7
Cash assets, total	99.0	64.5	149.0	61.6	303.7	78,8	612,5	86,7	697.6	88.5
Non-cash inflows	54.5	35.5	92.8	38.4	81.7	21,2	93,4	13,3	90.8	11.5
Cash and non-cash assets, total	153.5	100	241.8	100	385.4	100	705,9	100	788.4	100

Below you can see the distribution of average monthly incomes per household in 2001–2012 and distribution of average monthly incomes per household by urban and rural areas in 2006–2012.

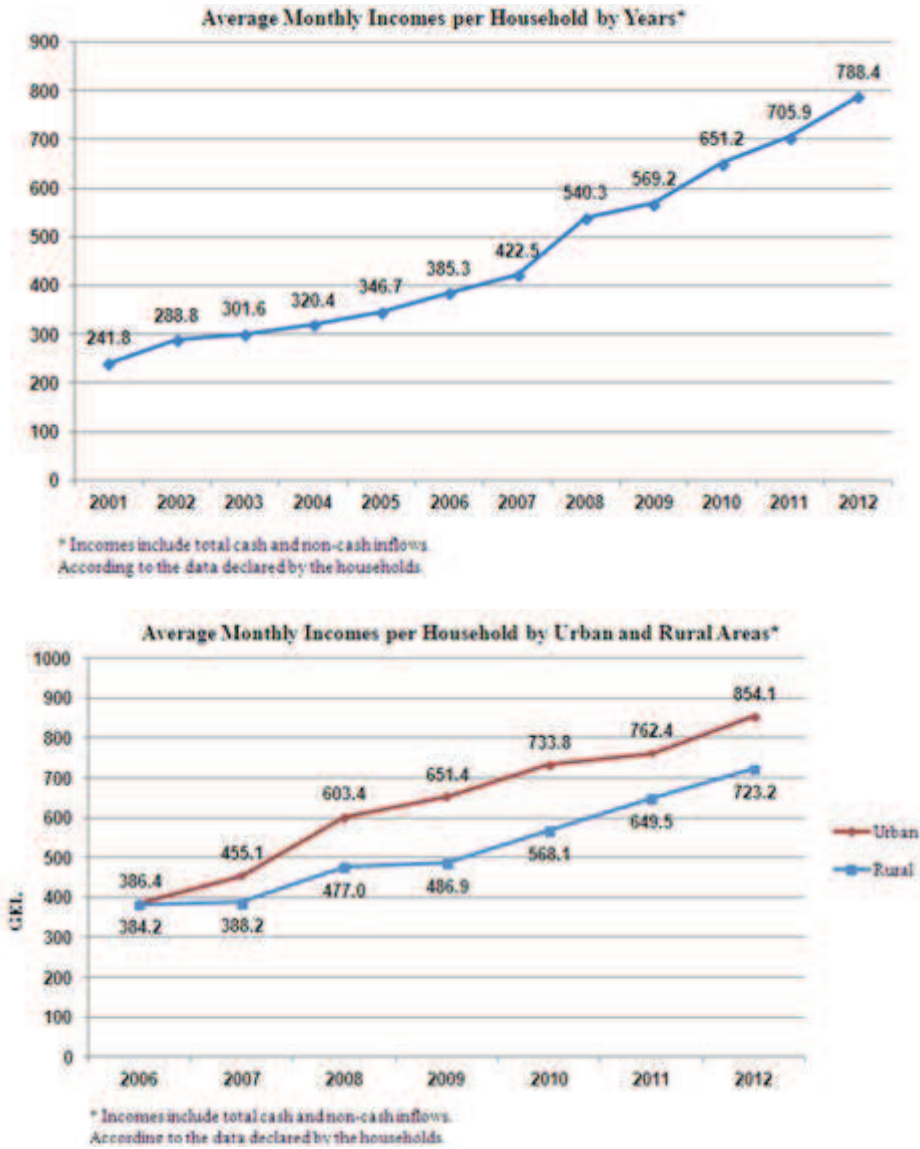


Table 2. shows the distribution of average monthly expenditures of Georgian households in 1996–2012.

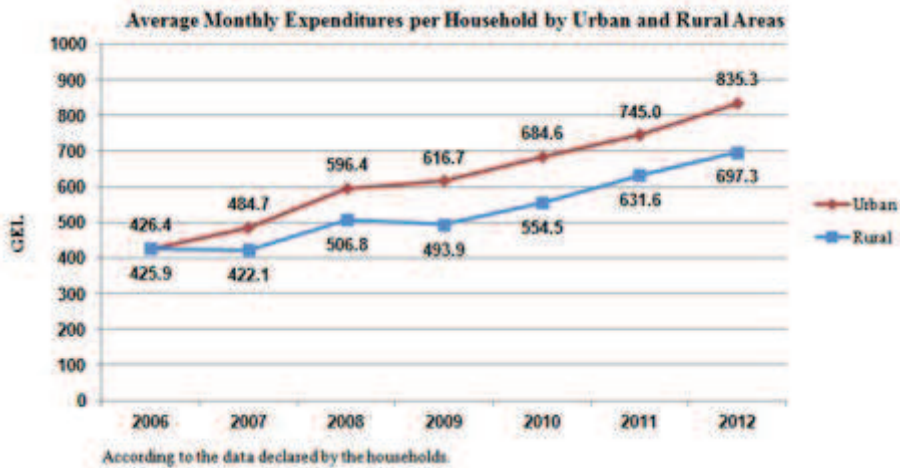
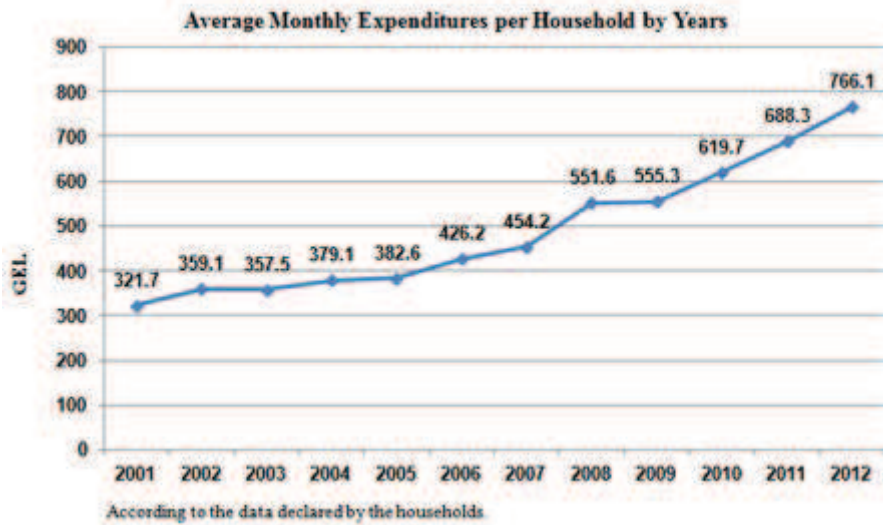
Table 2. Distribution of average monthly expenditures per household in 1996–2012

Indices	1996		2001		2006		2011		2012	
	GEL	%	GEL	%	GEL	%	GEL	%	GEL	%
Consumers' cash expenditures	168.4	94.1	201.8	88.1	295.1	85.7	475.7	79.9	512.1	75.8
Including:										
Food products, drinks, tobacco goods	93.6	55.6	106.7	52.9	145.9	49.4	192.4	40.4	194.8	38.0
Clothes and shoes	8.8	5.2	12.2	6.0	15.2	5.2	17.4	3.7	18.8	3.7
Household goods	14.8	8.8	25.6	12.7	10.1	3.4	18.0	3.8	20.3	4.0
Health	7.7	4.6	11.5	5.7	22.9	7.8	55.4	11.6	58.8	11.5
Heating and electric power	9.6	5.7	17.1	8.5	28.1	9.5	59.0	12.2	65.7	12.8
Transport	11.0	6.5	12.4	6.1	23.9	8.1	45.7	9.6	52.4	10.2
Education	4.9	2.9	7.3	3.6	9.1	3.1	17.4	3.6	21.9	4.3
Other expenditures	8.0	4.7	9.2	4.6	40.0	13.5	70.4	14.9	79.4	15.5
Non-consuming cash expenditures	20.5	5.9	27.1	11.9	49.4	14.3	119.2	20.1	163.2	24.2
Including:										
Agricultural expenditures	5.4	26.3	5.8	21.4	7.5	15.2	14.5	12.3	16.0	9.8
Transfers	1.0	4.9	0.7	2.6	10.9	22.1	19.5	16.4	23.0	14.1
Deposits and lending	14.1	68.8	20.6	76.0	19.1	38.6	51.5	43.2	96.9	59.3
Purchasing real assets	—	—	—	—	11.9	24.1	33.5	28.1	27.4	16.8
Cash expenditures, total	179.0	76.7	228.9	71.1	344.5	80.8	594.9	86.4	675.3	88.2
Non-cash expenditures	54.5	23.3	92.8	28.9	81.7	19.2	93.4	13.6	90.77	11.8
Expenditures, total	233.5	100	321.7	100	426.2	100	688.3	100	766.1	100

When we analyze the distribution of average monthly expenditures per household, it's noticeable that expenditures on food products, drinks and tobacco

goods are high and expenditures on education are low. It means that efforts of majority of population are directed towards the physical survival. People try to not spend money on other needs.

Below you can see the distribution of average montly expenditures per household in 2001–2012 and distribution of average montly expenditures per household by urban and rural areas in 2006–2012.



Method

Quality of life and indices of inequality of households are estimated on the basis of two different thresholds:

- 60% of median consumption,
- 40% of median consumption.

60% of median consumption and 40% of median consumption are the relative thresholds calculated from the median of population distribution based on total consumption. The median of population distribution based on total consumption is such quantity, when half of the population (50%) consumes not more than it and the other half consumes not less than it.

The indices of inequality of population are estimated on the basis of total consumption of households with regard to effect of joint consumption. Table and graph shown below give us impression about the above-mentioned indices in Georgia.

Table 3. The indices of inequality of population in 2004–2012

Indices	2004	2005	2006	2007	2008	2009	2010	2011	2012
Share of population under 60% of median consumption	24.6	24.1	23.3	21.3	22.1	21.0	22.7	23.0	22.4
Share of population under 40% of median consumption	10.9	10.1	9.4	9.2	9.5	8.8	10.0	10.4	9.3

Results

According to analysis of data presented in the table, in 2012, level of poverty in Georgia has decreased from 24.6% to 22.4% (related to 60% of median consumption) and from 10.9% to 9.3% (related to 40% of median consumption) compared to 2004. Therefore, we have trend of reduction of indices of poverty.

In Georgia index of households' incomes is Gini coefficient. It shows the deviation of actual distribution of incomes related to equal distribution line. In the case of equal distribution, Gini coefficient is 0 and when the distribution is absolutely unequal, the same coefficient becomes 1.

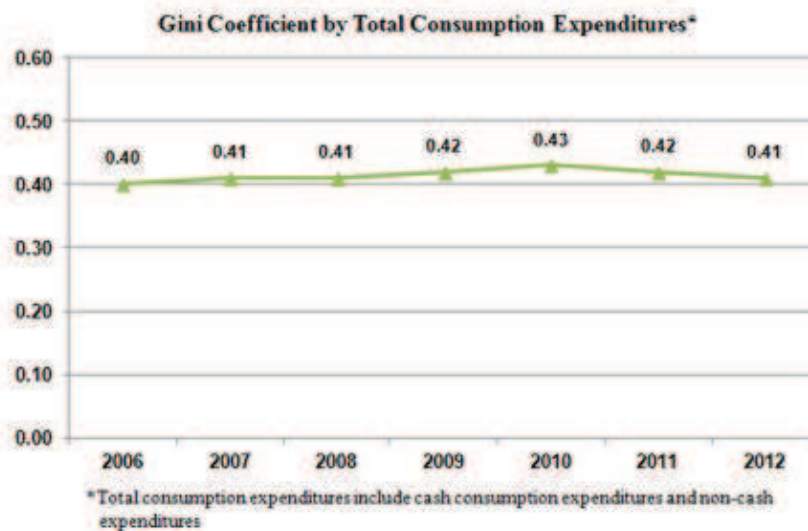
Table 4. Gini coefficients for Georgian households in 2006–2012

	2006	2007	2008	2009	2010	2011	2012
Total income include cash income and transfers and non-cash incomes	0.45	0.46	0.45	0.46	0.46	0.46	0.43
Total cash inflows include cash incomes and transfers and other cash inflows	0.53	0.53	0.53	0.53	0.52	0.52	0.49

Table 4. Gini coefficients for Georgian households in 2006–2012 (cont.)

	2006	2007	2008	2009	2010	2011	2012
Total inflows include cash inflows and non-cash incomes	0.47	0.47	0.47	0.48	0.48	0.48	0.46
Total consumption expenditures include cash consumption expenditures and non-cash expenditures	0.40	0.41	0.41	0.42	0.43	0.42	0.41
Total cash expenditures include cash consumption expenditures and cash non-consumption expenditures	0.47	0.48	0.49	0.49	0.50	0.50	0.49
Total expenditures include cash expenditures and non-cash expenditures	0.42	0.43	0.44	0.44	0.46	0.46	0.45

The graph of Gini coefficient (index of inequality) in 2006–2012 by total expenditures of Georgian households is shown below.



Conclusions

Therefore, distribution of incomes in Georgian households is far from equal, but the trend is stable through the years. If economical activities will develop in Georgian households, it will be possible to decrease Gini coefficient step by step and to achieve the equality of incomes.

References

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Priorytety realizacji funkcji konsumpcji gospodarstw domowych

Synopsis: Wzrastające dochody gospodarstw domowych są źródłem poprawy życia i dobrobytu ludzi, i zależą od rozwoju gospodarki. Podniesienie dochodów jest bardzo ważnym celem dla społeczeństwa. W Gruzji są dwa problemy związane z dochodami: podnoszenie całkowitych dochodów oraz zmniejszenie nierówności w dystrybucji. W Gruzji dochody gospodarstw domowych wyznaczamy na podstawie współczynnika Giniego. To pokazuje odchylenie rzeczywistego podziału dochodów związanych z dystrybucją. Rozwój gospodarczy będzie następować w gruzińskich gospodarstwach domowych w momencie zmniejszającego się współczynnika Giniego, co krok po kroku pozwoli na osiągnięcie równości dochodów.

Słowa kluczowe: wskaźniki dochodów, współczynnik Giniego (wskaźnik nierówności), wskaźniki ubóstwa.