

# THE IMPACT OF IMPORT RESTRICTIONS ON THE CONSUMERS

By KHALIL REDA, B.Sc., M.Sc. Ph. D. (Harvard).

*Dept. of Agric. Economics, Faculty of Agriculture,  
Ain Shams University, Cairo, Egypt*

The present government has recently introduced some vital changes in our foreign trade policy. These changes were vital for the rapid fulfilment of our nationalistic goals. First, Egypt is to be strong enough to be able not only to defend itself against aggression but to be also able to inflict heavy reprisals. Second, every effort is to be expanded for the rapid industrialization of the country. Accordingly, priority in the imports has been given to the needs of our armed forces and our industries. Unless our exports are correspondingly increased to meet the substantial increase, which is taking place in the imports of arms and capital machinery, the present government policy will entail a drastic curtailment in the imports of some consumers commodities deemed not essential (1).

The restricted imports will put a burden on the consumers whose consumption has been restricted. This burden is expressed by the loss in satisfaction shown by the consumer when he realizes that neither can he now secure on the market the same quantity of the commodity he was previously consuming; nor can he secure a unit of it, but at a higher price. This loss in satisfaction incurred by the consumer affects his morale. As the role played by public morale in the success or failure in any undertaking is of a paramount importance, every effort should be taken by the government to keep it from being undermined. The public will willingly bear hardships when given to understand that every effort is being made to lessen the burden imposed on him by restricting his consumption. The purpose of this paper is to analyse this loss in satisfaction brought about by the forced reduction in consumption and to find ways by which this burden could be alleviated or at least be more equitably distributed.

If as a result of import restrictions on a commodity its supply on the local market becomes insufficient to meet demand, the price of the article will have

---

(1) Restrictions of the imports of some commodities have recently been imposed.

to rise to a level where supply equates demand at the new price level. (The assumption here is that local production does not increase to make up for the reduction in imports (1). At the higher price however, a certain number of consumers will be unable to afford it and only those in the higher income brackets will be able to secure the limited quantities offered. To bring about a more equitable distribution of the burden, a system of rationing coupled with price ceiling would have to be imposed. (2) This is shown in Figure I.

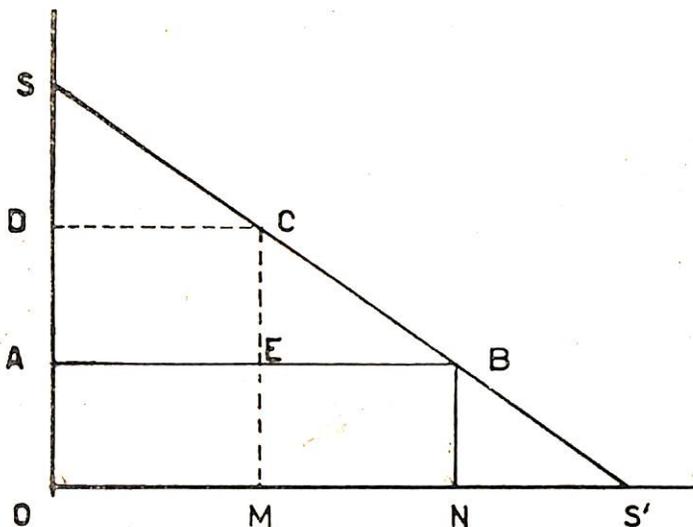


Figure I

Figure I shows a demand curve  $SS'$  (drawn as a straight line for simplification) for a commodity  $X$ .  $ON$  is the quantity bought at a price  $OA$  (before restriction). The amount of consumer's surplus is the area  $ABS$ . When the import of commodity  $X$  becomes restricted and rationing is imposed only a quantity  $OM$  becomes available to the consumer. If no price ceiling is introduced, the price of the commodity will rise to  $OD$ . The area of the consumer's surplus is thus reduced to  $DCS$ . This involves a loss in satisfaction amounting to the difference between  $ABS$  and  $DCS$  represented by  $ABCD$ . (3). The loss in satisfaction could be reduced if the government imposes a price ceiling

(1) The possibilities of increasing production under conditions of both perfect and monopolistic conditions will be discussed in the latter part of this paper.

(2) Without price ceiling being imposed, the mere appeal to housewives not to pay suppliers more than the normal price has little chance of success.

(3) The loss in satisfaction in the consumer's surplus could be measured as a percentage of total expenditures.

to maintain the price at the old level OA. The consumer will thus be able to get his rationed quantity of the commodity OM at OA price, leaving him with a consumer's surplus equal to the area AECS. The loss in satisfaction in this case BEC is much smaller than the area ABCD, which represented the loss in the consumer's surplus incurred when no price ceiling was imposed. Thus, the imposition by the government of a system of rationing and price ceiling on the goods whose imports have been restricted and which as a result are short on the local market is a vital step in the right direction towards alleviating the dissatisfaction of those whose consumption has been restricted.

As a result of rationing and price ceiling on a commodity however, the total expenditure on it will be reduced. The consumer will be left with extra money which would have been spent on it had there not been a shortage of it on the market. In Figure I, this extra money is shown by the difference between ABNO and AEMO represented by the area EBNM. Unless this extra money is taken off the market by government borrowing to avoid inflationary gaps, the consumer will be forced to spend it on outlets that they would not have chosen if they had had free choice. As this amount of purchasing power can not be spent on rationed commodities, the only outlets open to the consumers are the non-rationed articles. The effect of the extra expenditures on non-rationed commodities will be to increase both the quantity demanded and the price. (The percentage rise in price will depend on the elasticity of the supply curve. The more inelastic the supply curve, the greater is the percentage rise in price as compared with the percentage increase in quantity). The rise in price on the non-rationed commodities will bring an added loss to the consumer's surplus. Figure II shows the effect of the spending of the extra purchasing power

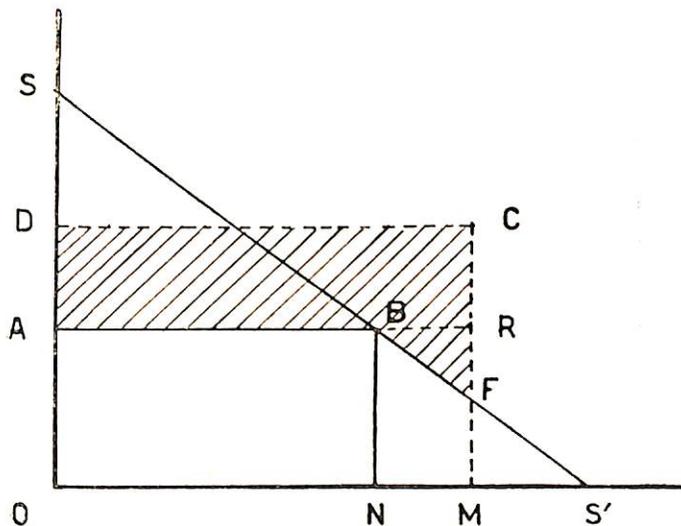


Figure II

EBNM (Fig. I) on a non-rationed commodity. OD is the new price and OM is the new quantity demanded. The increase in total expenditures from ABNO to DCMO equalling the extra purchasing power EBMN found in the consumer's hand as could be seen, the loss in the consumer's surplus amounts to the shaded area ABFCD.

The loss in the consumer's surplus could be reduced if the government imposes a price ceiling. If price is maintained at OA then the loss in satisfaction is reduced only to the area BFR, showing a substantial gain in satisfaction to the consumer in comparison with conditions when no price ceiling was imposed. Thus, it would be wise for the government, in order to reduce such a burden, to extend price ceiling over some of the non-rationed articles which figure prominently in the buying list of the average consumer. Price ceilings, however, can not be successfully maintained under all circumstances. The successful maintenance of price ceilings will depend to a great extent on the conditions under which the commodities are being produced.

If the particular goods under consideration is being produced under conditions of perfect competition then no increase in production can take place unless prices are raised. In order to maintain successfully the price ceiling imposed at the old price level rationing will also have to be imposed. Figure III shows that at a price OA production can only be carried up to the

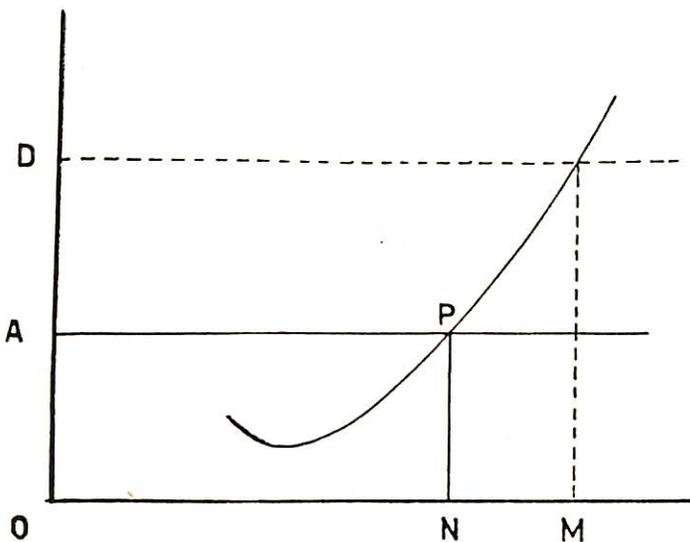


Figure III

point where the marginal cost curve of the firm cuts the price line at point P, showing a production ON. Any increase in production to OM, for example,

can only take place if prices are raised to OD. Thus, with the price ceiling imposed no increase in production can take place and if this price ceiling is to be successfully maintained then rationing will have to be added to divide equally the limited quantities of the commodity found on the market between its consumers.

If non-rationed commodities are being produced under monopolistic conditions, the situation differs. Figure IV shows production of goods under

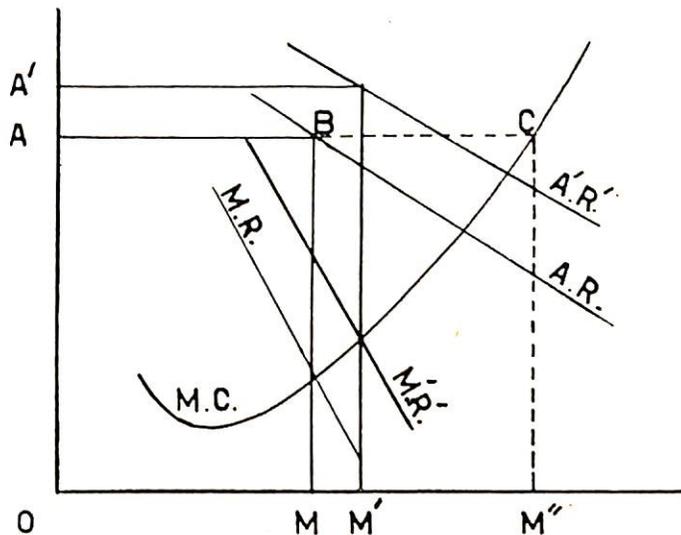


Figure IV

monopolistic conditions. Normal production takes place up to the point where the marginal cost curve cuts the marginal revenue curve — a quantity OM will be produced at a price OA. With increase demand, under normal conditions, there will be a new demand curve A'R' and a new marginal curve M'R'. Production will increase up to the point OM' where the marginal cost curve cuts the new marginal revenue, but the output will have to be sold at OA' price. However, as there would be a price ceiling — price OA to be maintained — the new marginal revenue curve, under this hypothesis will be ABC. Production will increase up to the point where the marginal cost curve cuts this new marginal revenue curve at point C. A quantity OM'' will thus be produced at a price ceiling OA. Thus, under conditions of monopolistic competition — due to the peculiarity of the demand curve — an increase in production can take place without prices having to be raised. (1) Under normal

(1) The inflationary effect of the extra purchasing power will be partly dissipated on these goods as production can be expanded with no increase in price.

conditions a monopolist can increase the quantity of his sales only by reducing the price unit of his commodity. Thus, the maintenance of the same price — through price ceiling — becomes a great incentive for the monopolist to increase his production. (1) As production can be expanded on the commodities produced under monopolistic conditions without a rise in prices, the government can successfully maintain its price ceilings on these commodities without recourse to rationing. (2)

To summarize:

If a shortage of a commodity appears on the local market as a result of import restrictions and if the government does not interfere, the price level of this commodity will increase considerably. Accordingly, many consumers of the low income brackets will be unable to afford it at a new price level. Those consumers will suffer a considerable loss in satisfaction and this is very detrimental to public morale. In order to alleviate the dissatisfaction of the deprived consumers the government will have to impose rationing and price ceiling.

As a result of the reduced expenditures on the rationed commodities the consumers will find themselves with extra purchasing power. Unless this extra money is taken off the market by government borrowing to avoid an inflationary gap, it will be spent on the non-rationed commodities. This extra demand will in effect raise the prices of those commodities. Some of these prices, however, will have to be maintained — at least — on these commodities which are important from the consumers point of view.

To successfully maintain price ceilings on commodities produced under conditions of perfect competition, rationing will also have to be imposed. As, however, an expansion in production can take place without prices having to be raised on goods produced under monopolistic conditions, price ceilings can effectively be maintained without recourse to rationing.

**Khalil Reda**

---

(1) In this analysis we made the hypothesis that the cost factors will remain unchanged. Of course, with increase demand and with the increase in the flow of labor and materials into the increased production, the cost curve will shift somewhat depending on the peculiarity of production of the particular industry. The rise in the cost curve will curtail somewhat the increased production .

(2) Unless the increased production which will take place is not sufficient to meet the increased demand.