

Governments should use cash transfers to target families hit by food poverty

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Governments should target aid towards individual households threatened with poverty because of soaring food costs rather than intervene in the markets to try to lower prices, according to research funded by the Economic and Social Research Council (ESRC).

Governments in poorer countries should pay cash benefits directly to [poor families](#) instead of interventions such as price subsidies or controls. This type of interference causes distortions of the food markets and does not help the poorest.

Valérie Lechene at University College London together with researchers from the Centre for Microeconomic Analysis of Public Policy at the Institute for Fiscal Studies looked at how cash transfers could have been used during the global food crisis of 2006-2008 when food prices rose dramatically.

The increase was particularly stark for commodities such as rice, corn and wheat, which make up the staple foods for many poor [households](#). Rice prices trebled while maize and wheat more than doubled over that period.

The researchers looked at Mexico where food price rises had a devastating impact - particularly on poor households who were worse off by an amount equivalent to 20 per cent their food spending as a result.

They compared the impact of a simple transfer of 50 pesos (equivalent

to approximately £2.43) to poor households with what would be achieved if the government used a subsidy to push down food prices for all consumers by five per cent.

They found that a 5 per cent drop in the general food price did little to compensate the poorest households for the price increase. "However a cash transfer of 50 pesos a week would cover almost the entire welfare cost for poor households," Dr Lechene says.

The benefit of using cash payments is much greater for poor households than their wealthier neighbours because food makes up a much larger share of their daily budget. "Giving less support to richer households is the trade-off if you want to give more to poorer households," she said.

Using cash transfers can also save governments money: researchers found a 5 per cent price subsidy that would have still left poor households 15 per cent worse off would have cost more than a 50 peso cash transfer that meant the poorest households were fully compensated.

Although the research was carried out in developing countries, Dr Lechene says it is applicable to advanced economies whose populations have suffered from rising [food prices](#) recently.

"The implications are global because the evidence that it is better to give to a targeted group rather than to intervene on price is a general one," she says. "Intervention on prices can create distortions and are not well targeted."

The researchers from the Institute for Fiscal Studies used this argument in the recent Mirrlees Review of the UK tax system. They argued: "The government should use direct taxes and the tax credit and benefit system to target particular groups rather than have zero and reduced rates of VAT for certain goods, as this action benefits all groups but distorts [food](#)

prices."

Provided by Economic & Social Research Council

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