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## FORUM

### THE ECONOMICS OF “ROBIN HOOD” FOOD SUBSIDY POLICIES

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Consumers throughout the world are now experiencing an unprecedented rate of increase in the price of food. In some countries, this has led to severe political unrest; which has caused governments to consider ways in which the problem can be alleviated, especially for the lower income groups.

One possible solution to the problem is for the exchequer to subsidize the price of food in some way. The aim of this note is to enumerate some of the advantages and disadvantages of this approach.

The greatest advantage of a simple food subsidy is that its effect is immediate. Thus, there is a certain amount of political capital to be made out of introducing a subsidy. But, what of the economic implications? To a great extent, these will depend upon the source of finance used for the subsidy. The favourite method is to raise funds by a “Robin Hood” taxation policy, i.e., taxing the rich to subsidize the poor. However, this method could result in demand-pull inflation in a full employment situation since the marginal propensity to consume of the higher income groups is less than that of the poorer groups. Hence, money saved by the lower income groups resulting from the food subsidy will probably be spent on current consumption resulting in an increase in total consumption expenditure in the economy.

When granting food subsidies, the government must take great care in which products they choose to subsidize. To help the lower paid it would be desirable to subsidize all staple foods. However, any price subsidy on the more price elastic staples (e.g. meat) will cause an upsurge in demand resulting in a massive subsidy bill for the government. The only way of preventing this occurring is to introduce a system of coupon rationing which very few people would find desirable except in emergency situations.

A further major disadvantage of food subsidies is that it is not only the lower income groups which benefit from such a policy, although they benefit proportionately more than higher income groups since they spend a higher percentage of their income on food. So, if the aim of the policy is to alleviate the effect of price rises on the lower income groups, this type of “Robin Hood” policy is not entirely effective.

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Hence, some way must be found of benefiting solely the lower income groups in the economy. A recent attempt was made along these lines in the U.K. with the issue of butter coupons to pensioners enabling them to purchase butter at a reduced price at selected retail outlets. This scheme was not wholly satisfactory due to the fact that not all pensioners purchased butter and that there was a social stigma attached to using the coupons.

It appears, therefore, that it is not economically or socially feasible to grant a subsidy for a single product group (in this case food) which will benefit only the lower income stratum. An alternative solution, which will benefit only this section of the community, is to increase their relative incomes and to leave them with the consumer choice of how they will distribute this increase. This is by no means a panacea since the problems of financing this increase still remain, with the inflationary implications discussed above. However these problems will be inherent in any "Robin Hood" policy.