

ERSA Research Brief

Who would eat more with a food voucher programme in South Africa?

Jan van Heerden

What might seem like a good idea for satisfying the hungry is likely to leave the economy in a dyspeptic state. Jan Van Heerden's study into the relative merits of a food voucher programme (ERSA Working Paper number 110) suggests that the price distortions created by such a scheme are likely to inflate production costs, undermine economic competitiveness and slash output. This is unlikely to be a worthwhile price to pay for reducing poverty.

Previous studies into the merits of food voucher programmes, which used partial equilibrium analysis, concluded that they boost output and eradicate poverty. Van Heerden argues that these findings are flawed on account of the partial-equilibrium framework from which they are derived.

He constructs his own case on a reputable and long-established general-equilibrium model for South Africa. Built into this model are the assumptions that government funds a portion of the food voucher scheme, partly through raised taxes. Firms, who are co-opted into contributing to the food scheme, view their payment as an addition to their wage bill. Consumers buy food with the vouchers and are assumed to spend 80% of the value of the vouchers on food.

The modelling exercise extends over a relatively short time horizon of a few years, and therefore does not factor in the effect of technological gains, or changes in producers' behaviour.

Rising demand, dwindling supply

Van Heerden tests the impact of a range of scenarios, in which government contributes varying proportions to the food voucher scheme. Regardless of the size of its contribution, higher indirect taxes on sales induce firms to cut back on production, so that real GDP and real tax revenue are eroded. The higher real cost of labour nudges the cost of production higher, which also reduces supply in the economy.

Meanwhile, the receipt of food vouchers, which is equivalent to a hike in wages, increases demand for food – and pushes up overall demand in the economy.

The net affect of crimping supply and swelling demand is rising prices, which further erodes the real value of output and undermines the competitiveness of South African produce.

Van Heerden concludes that the only positive outcome of a food voucher scheme is that it would benefit the poor more than the rich. In particular, the larger the contribution by government to the scheme, the more significant will be the benefits to the poorest households.

Considering the overall effects, though, there must be better ways to relieve poverty, he says.