

Investigating the Impact of Cash Subsidies on the Welfare of Rural Families in Khorasan Razavi Province

Arash Dourandish ¹

Associate Professor in Agricultural Economics, Ferdowsi University of Mashhad, Mashhad, Iran

Afsaneh Nikoukar

Assistant Professor in Agricultural Economics, Payam-e Noor University, Tehran, Iran

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Extended Abstract

1. Introduction

Welfare is one of the important socioeconomic subjects presented in texts related to economy. Welfare provision is one of the most important purposes in any economic system; offering proper living conditions for the entire strata of societies is considered as the major duty of governments. To achieve such a goal, governments employ different tools; in this regard, granting subsidies is an important way of income transfer, supporting low-income strata, fair distribution of income, and a means for improving the efficiency of poverty mitigation programs and other plans for providing social support to vulnerable strata. Such a strategy could only achieve said purposes if it is regulated and governments are obligated to execute it. Despite how granting cash subsidies was predicted to increase the benefits and welfare of low-income strata, particularly in rural communities, it appears to be unexpectedly worsening the welfare of such strata due to inflation growth and a rise in the price of essential goods and food, which constitute a major share of expenses of low-income households. By drawing a link between cash subsidies and welfare indices, it has been attempted in the present study to evaluate and assess the degree of effectiveness of cash subsidies on the welfare of rural families and recommend a set of suitable strategies for future policy-making.

2. Theoretical Framework

The relation between social welfare level and how resources are allocated to various sections of a society is determined by the social welfare function. The social welfare function depends on the desirability achieved by each and every individual in the society; yet individuals are unaware of the extent of their own desirability as well as others', recognizing solely the effective factors on their own welfare. Social welfare could be analyzed through different dimensions and could be calculated using various methods. In this regard, using methods such as social welfare functions, supply and demand functions, consumer and producer's surplus calculation, and employing socioeconomic welfare indices and criteria are methods used in various studies to calculate welfare.

1. Corresponding author. Email: dourandish@um.ac.ir

3. Methodology

Given the structure of data (unbalanced panel data) in this study as well as the presence of a system involving three equations with simultaneous correlation between their components compromising the test, an econometric model for seemingly irrelevant systems with unbalanced panel was used. Indices including daily calorie and protein intake was used to measure family welfare. Furthermore, to calculate the annual income of rural families, profits gained from selling produced goods during a year are added to none-agricultural incomes such as rent and accumulated deposit interests, together with cash subsidies received. The required information for the study were collected from rural families' expense and income detailed plans laid out by the Statistical Center of Iran during 2010-12 in Khorasan Razavi province.

4. Results and Discussion

The results of the study showed that a set of factors such as the level of literacy, type of activities, costs of food, and areas under cultivation involved positive impact on welfare indices; nonetheless, factors such as subsidies and the number of household members were of negative effects on food security indices and a positive effect on the whole income index. Since the costs of food and general income are components affecting welfare indices including calorie and protein intake, the results showed that 1% increase in the costs of food would increase 0.15 and 0.34% of calorie and protein intake, respectively; moreover, 1% rise in the general income has increased 0.09 and 0.11% of households' calorie and protein intake, respectively. Despite cash subsidies increasing the general income of rural households, yet not only this variable has had no positive impact on food security indices, i.e. calorie and protein intake, but also has led to their decline. In this regard, 1% increase in received cash subsidies would reduce 0.02 and 0.07% calorie and protein intake, respectively.

5. Conclusion and Suggestions

Although cash subsidies have insignificantly increased the general income of households, it has practically reduced the purchasing power and real incomes of families due to rise in market liquidity and inflation. Considering the subject of food security as one of the most important issues related to welfare provision in any society nowadays and given the emphasis of the fourth economic, social, and cultural development plan regulation of Iran on providing 29g of protein to every individual daily, its recommended that the Iranian government revise granting cash subsidies; in this regard, the government could consider a subsidies system for goods and essential food items for families so as to achieve subsidy targeting as well as increasing the welfare of rural families.

Keywords: Cash subsidy, Welfare indices, Rural families, Khorasan Razavi Province

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