



## Do the urban poor face higher food prices? Evidence from Vietnam



John Gibson<sup>a,\*</sup>, Bonggeun Kim<sup>b</sup>

<sup>a</sup> Department of Economics, University of Waikato, Hamilton, New Zealand

<sup>b</sup> Department of Economics, Seoul National University, Seoul, Republic of Korea

### ARTICLE INFO

#### Article history:

Received 11 December 2012

Received in revised form 28 March 2013

Accepted 13 May 2013

Available online 2 July 2013

#### Keywords:

Food prices

Poverty

Unit values

Urban markets

Vietnam

### ABSTRACT

Whether there is a poverty penalty, in terms of food prices, is unsettled in the literature after more than four decades of study. Unit values from household surveys suggest that prices vary with income while outlet surveys typically find food prices varying with store type but not with neighborhood income. Most outlet surveys are from rich countries, with just one spatially limited study from a developing country. In this paper we use especially collected food price data from metropolitan areas of Vietnam to test whether the urban poor face higher food prices. Food prices in low-income neighborhoods are 1% lower, on average, than in other neighborhoods. Unit values give a different answer to the question of whether the poor face higher prices and are not suited to answer such a question.

© 2013 Elsevier Ltd. All rights reserved.

### Introduction

It is often claimed that it costs the poor more than the non-poor to participate in many markets, including the food market (Mendoza, 2011). If this claim of a 'poverty penalty' is correct, it has the important implication for economic policy that improving the functioning of markets may simultaneously help both efficiency and equity (Muller, 2002). This double dividend from improved market performance may occur because as the prices paid by the poor converge to the prices paid by everyone else, real inequality would fall while resources would be more efficiently allocated.

At least three reasons are suggested in the literature for this poverty penalty. It may be more expensive to serve the poor, either because they live in remote areas so that transport costs are higher or because they live in informal environments, such as urban shanty towns, where poor infrastructure and weak legal rights make it risky for retailers to set up and so a price premium is charged to recoup these extra costs (Mendoza, 2011). A second reason is that the poor may be liquidity constrained and so are forced to buy very small quantities on each purchase occasion, preventing them from capturing any pecuniary economies from bulk buying (Rao, 2000). More generally, search costs may be U-shaped in income so that it is middle-income consumers who pay the lowest prices (Frankel and Gould, 2001). For example, the rich may have the wherewithal, such as personal transport and in-home storage, to both search for and benefit from lower food prices but they have

a high opportunity cost of time so they do not search intensively. In contrast, the poor may have more time to search for lower prices but may lack access to transport and food storage so that they are captive to their local outlets while the non-poor are freer to search for bargains outside their immediate area.

In addition to policy implications for equity and efficiency, a measurement issue arises if the poor pay more than the rich, since real inequality may then be higher than nominal inequality. Indeed, Rao (2000) finds that the poor in India pay more for the same foods than do the rich and that after adjustment for this effect the Gini coefficient for real income is from 12% to 23% higher than the Gini for nominal income. Similarly, Muller (2008) uses finely detailed local price data for Rwanda to show that poverty monitoring and anti-poverty targeting can be badly affected when nominal living standards data are deflated by inaccurate measures of prices. In particular, when price indexes are calculated for too large of a spatial area, such as a region, they do not correspond to the prices actually paid by local residents.

Another reason for interest in whether the poor face different prices is that several outbreaks of inflation for staple foods since 2007 have reawakened policy concerns about food security. While these concerns are often expressed through national self-sufficiency policies and interventions in export markets so as to lower domestic prices for consumers, considerable attention is also paid to micro-level food security. Despite two decades of rapid economic growth in much of Asia, there are still major nutritional concerns; for example, it appears that average calorie consumption in India is falling (Deaton and Drèze, 2009). If the urban poor face higher prices for food it may exacerbate these food security concerns, especially because the urban poor are only consumers

\* Corresponding author.

E-mail address: [jkgibson@waikato.ac.nz](mailto:jkgibson@waikato.ac.nz) (J. Gibson).

whereas the rural poor may benefit from higher food prices if they are net producers (Linh and Glewwe, 2011). Perceptions of nutritional vulnerability for urban consumers may motivate rice market interventions by Asian governments, which contribute to world food market instability (Timmer, 2009).

In this paper we use especially collected food price data from metropolitan areas of Vietnam to test whether the urban poor face higher food prices than do other urban residents. The main empirical findings rely on an analysis of covariance to compare prices of identical food items across different outlets in rich and poor neighborhoods, decomposing the variation into location effects and income strata effects. This type of outlet-survey is more typically carried out in rich countries, with just one spatially limited, and dated, outlet study from a developing country (Musgrove and Galindo, 1988). In order to contribute to the literature from developing countries that uses other data sources, and also to make a methodological point, the price survey is linked to a household survey carried out at the same time. The advantage of having both outlet data on prices and household survey data on unit values (expenditures on a food group divided by the quantity purchased) is that it allows an examination of whether both types of data give the same answer to the question of whether there is a price penalty for being poor. The only existing comparison finds that the two types of data do not give the same answers (Kaufman et al., 1997), which is also what is found in the data for urban Vietnam. Unit values are unable to reveal whether the poor face higher prices and are not suited to answer such a question.

The remainder of the paper is structured as follows. 'Previous literature' reviews the previous literature, contrasting the results from outlet-based samples with those from household surveys. 'Data and methods' describes the various surveys that we use to create measures of food prices in urban Vietnam, while the main results are reported in 'Results'. The conclusions are in 'Conclusions'.

## Previous literature

Whether there is a poverty penalty, in terms of food prices, remains unsettled in the economics and geography literature after more than four decades of study.<sup>1</sup> This lack of consensus may be because two subtly different approaches have been used; store surveys (more generally, outlet-based samples) that compare the prices of identical goods in rich and poor neighborhoods, and household surveys that compare unit values (the ratio of expenditure to quantity) across rich and poor households. Unit values do not reveal the prices faced by households, since the unit value depends on their actual purchases which are determined not only by the prices they face but also by the choices they make in terms of quality, quantity (hence any bulk discounts or small-volume-markups), outlet type, coupon redemption, haggling, under-the-counter deals, and so forth. On the other hand, while outlet surveys can reveal the prices facing consumers, they cannot reveal if the price actually paid by the poor differs from that paid by other consumers, because the variation in what is actually paid requires the type of information that is in the household surveys (or possibly available from scanner data in richer countries). While both approaches have their strengths, to date just one study, by Kaufman et al. (1997) for the United States, applies both methods in the same setting in order to learn about the consistency of their findings.

Outlet surveys have the advantage of ensuring that like is compared with like, by choosing a representative specification (size, quality, brand and any other distinguishing feature) for each selected food. This approach is used most frequently in the United

States, where the literature finds that prices vary with store type (supermarkets are cheaper than convenience stores) and location (suburbs are cheaper than rural and central city areas). However, prices do not vary with neighborhood income, given location (Hall, 1983; MacDonald and Nelson, 1991). Moreover, even if store mix and location are not held constant, the gradients are sufficiently flat that prices facing poor households for the *same* food items are likely to be less than 1% more than those facing non-poor households (Kaufman et al., 1997, p. 8).

A similar conclusion is reached in a developing country context by Musgrove and Galindo (1988), who survey prices of 14 different foods in 19 towns and cities in Northeast Brazil. These prices were reported for standard quantities, although it is not discussed if they were also for standard brands or if other indicators of quality were held constant. Prices for the same item were largely the same across the various urban areas, and also across the various store types in the survey, leading to the conclusion (1988, p. 101):

“Overall, there is no evidence that the poor pay more than their non-poor neighbors simply because of where they live or where they shop...”

This finding from Brazil is notable because it is the only example of a study based on an outlet survey in a developing country. All other developing country evidence comes from household survey data, for which it is not possible to maintain the like-with-like comparison since households adjust both the quantity and the quality of their purchases in response to price changes (McKelvey, 2011), and also may make other behavioral responses. Indeed, these potential responses suggest that imprecise wording was used by Musgrove and Galindo in describing findings from an outlet survey in terms of whether the poor *pay* more, since an outlet survey can only reveal the prices facing the poor, not what they actually pay.

Another drawback of outlet surveys is that the characteristics of purchasers are not known, and have to be proxied by neighborhood characteristics such as average income level or the share of poor households in the community. Conversely, household surveys capture buyer characteristics and the net effect of their responses to prices faced (such as bulk buying and quality discounting) but lack the fine detail on purchases needed to compare like with like, as the following quotation from Prais and Houthakker (1955, p.110) indicates:

“An item of expenditure in a family-budget schedule is to be regarded as the sum of a number of varieties of the commodity each of different quality and sold at a different price.”

Thus the average price actually paid for a category of food consumption in a household survey depends not only on the same-item prices that poorer households face but also on the various economizing choices they make over the particular items within the category that they purchase. These choices include buying lower quality and unbranded varieties, buying larger package sizes that are cheaper per unit weight, and using coupons and shopping for sale items. As an example of the combined effect of these strategies, Kaufman et al. (1997) calculate that in the United States low-income households typically pay only 90% of the cost per unit that is paid by the average household even though in low-income neighborhoods the food prices facing consumers are about 1% higher than in other neighborhoods. Similarly, in Argentina during the 2002 economic crisis, consumers reacted to this real income shock by both downgrading the quality of their purchases and by increasing the frequency of their shopping in order to search for lower prices (McKenzie and Schargrodsky, 2011).

Despite the potential interpretation problems caused by using household survey data that reflect endogenous economizing

<sup>1</sup> Early studies include Goodman (1968) and Kunreuther (1973).

Download English Version:

<https://daneshyari.com/en/article/5070653>

Download Persian Version:

<https://daneshyari.com/article/5070653>

[Daneshyari.com](https://daneshyari.com)