



By: *Carolina Alves*

Where do governments go wrong when addressing the affordability crisis?



Governments around the world are struggling to devise a sensible approach to managing inflation and disruptions to production and the supply of basic goods.

The **UK Treasury**, for example, has just issued a proposal to encourage supermarkets to cap prices on essentials (such as bread and milk) in exchange for loosened packaging and environmental regulations.

At first glance, the policy appears pragmatic and compassionate. But look beneath the surface and you will find an unwillingness to confront the structural drivers of rising costs.

Instead of intervening in the markets, the Treasury is negotiating with them, revealing its failure to appreciate the scale of the affordability crisis it faces.

The problem lies not just in expensive bread and milk, but in a systemic, long-term failure to address stagnant wages, high housing costs, and expensive essential services.

Worse, while publicly “picking a fight” over the cost of basic goods may appear responsive, it runs the risk of backfiring.

What will the government do if retailers simply resist, delay, or comply selectively? The policy will produce no results, and the state’s credibility will be further weakened.

Household-basket

Recent European experience highlights the danger. In 2023, the **French government** negotiated a “basket of anti-inflation products,” whereby supermarkets were free to select a limited set of goods to be sold at reduced prices for a defined period.

While politically visible, the scheme relied on voluntary participation, covered only a small share of products, varied across retailers, and had a limited and short-lived impact on overall food-price dynamics.

Such schemes may lower prices on selected

items, but they allow retailers to adjust margins elsewhere.

Similarly, in 2022, Greece introduced a “**household-basket**” initiative that encouraged supermarkets to keep selected staples affordable and regularly report on prices to signal their responsiveness.

Again, the program generated short-term visibility and some price moderation on specific items, but it did not substantially alter underlying profit margins or broader inflation dynamics.

More interventionist approaches have also run into problems

More interventionist approaches have also run into problems. When **Hungary imposed direct price caps** on selected food items in 2022–23—shifting from voluntary coordination to mandatory controls—retailers responded by raising prices on non-capped goods, leading to supply distortions and periodic shortages.

Spain, by contrast, temporarily **reduced its valued-added tax** on staple foods, which eased consumer prices at the margin; but since the scheme depended on savings being passed through multiple links in the supply chain, the overall results were neither uniform nor transformative.

The government is misdiagnosing the problem

Despite their differences, these cases reflect a common model that proved inadequate.

Whether voluntary, coercive, or indirect, governments relied on retailer-led interventions targeting a narrow range of goods at the point of sale.

These schemes may increase visibility, but they leave market structures unchanged; price caps risk encouraging evasion and supply disruptions; and indirect measures such as tax

cuts depend on firm behavior to transmit savings.

In none of these cases did the policy alter underlying cost structures, profit dynamics, or distributional patterns.

The focus on retail is especially misplaced in the United Kingdom, where exceptionally high housing and utility costs are absorbing a growing share of household income and sharply reducing what remains for essential consumption.

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By targeting supermarket prices alone, the government is misdiagnosing the problem and missing an opportunity to tackle the real causes of the affordability crisis.

Such interventions reflect a persistent bias in how governments respond to inflation.

Policymakers' instinct is to act on prices at the end of the supply chain, rather than on the conditions that shape them.

Yet food-price inflation is often driven by energy costs, agricultural inputs, labor conditions, global commodity markets, and corporate pricing strategies.

How to secure access?

The affordability crisis is not simply about retail prices. It stems from the relationship between prices, incomes, and the broader organization of social provisioning.

What matters is not whether the price of bread is marginally lower at the checkout counter, but whether households have the means to obtain essential goods reliably. The question is not how to cap prices, but how to secure access.

Mexico's *canasta básica* ("basic basket") program is instructive here. Rather than narrowly targeting supermarket prices, it defines a basket of essential goods and seeks to ensure their affordability through a combination of instruments: income support, minimum-wage policies, coordination with producers and retailers, and selective price stabilization.

Though it still partly relies on agreements with firms, it does so within a broader social-policy framework.



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Similarly, Brazil has focused less on capping retail prices for a **basic food basket** and more on shaping access through income and fiscal-transfer policies, public procurement and supply coordination, and direct food provision.

In each case, affordability is ensured not only through prices but through the institutional organization of access to essential goods.

Crucially, these strategies recognize that affordability is shaped as much by purchasing power as by prices themselves.

The illusion of control

The takeaway—for developed and developing countries alike—is that the state should intervene via income, provisioning, and production channels, rather than at the point

of sale.

In the UK's case, this would require moving beyond voluntary price caps toward a coordinated strategy that addresses the structural squeeze on household budgets.

That means strengthening income support for low- and middle-income households, reducing the burden of housing and utility costs, and engaging upstream suppliers across the food system to stabilize key inputs.

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Such a change would alleviate immediate pressures while building a more resilient and equitable system for the provision of basic goods.

Without it, policies like voluntary price caps offer only the illusion of control and risk reproducing the very dynamics that generate vulnerability, corporate concentration, weak regulation, and disappointing outcomes.

Carolina Alves is Associate Professor in Economics at the Institute for Innovation and Public Purpose at University College London and a fellow at the University of Cambridge's Girton College.