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Analysis of the Effectiveness of Subsidy Policies on Household Purchasing Power

Jamaludin[1] Wicaksono[2]
[1,2,] Fakultas Ekonomi, Manajemen, Universitas Kristen Petra, Surabaya, Indonesia

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ABSTRACT

Subsidy policies are implemented by governments as an instrument to maintain economic stability and protect household welfare, particularly in facing rising prices and declining purchasing power. This study aims to analyze the effectiveness of subsidy policies in improving household purchasing power and evaluating their impact on economic welfare. The research employs a quantitative approach using household survey data analyzed through descriptive statistics and regression analysis. The results indicate that subsidy policies have a significant positive effect on household purchasing power by reducing expenditure burdens and supporting consumption capacity. However, the effectiveness of subsidies depends on accurate targeting and efficient distribution mechanisms. This study concludes that well-designed subsidy policies can strengthen household economic resilience and contribute to sustainable welfare improvement.

Corresponding Author:

Jamaludin,
Manajemen, Fakultas Ekonomi,
Universitas Telkom, Bandung, Indonesia,
Jl. Siwalankerto No. 121–131, Surabaya, 60236, Indonesia.
Email: jamaludin99@gmail.com

1. INTRODUCTION

Household purchasing power represents one of the fundamental indicators of economic welfare because it reflects the ability of individuals and families to fulfill their consumption needs through available income. In developing economies, fluctuations in prices of essential goods, energy costs, food inflation, and changes in household income often create significant pressure on living standards, particularly among low- and middle-income households. When inflation increases faster than income growth, households experience a decline in real purchasing power, resulting in reduced consumption capacity and potential deterioration in welfare conditions. Therefore, governments frequently implement subsidy policies as an economic intervention mechanism aimed at maintaining affordability of essential goods and services, protecting vulnerable households, and stabilizing domestic consumption.

Subsidies are commonly designed to reduce the financial burden faced by households by lowering the effective prices of specific goods, such as fuel, electricity, food commodities, transportation services, and other basic necessities. From a macroeconomic perspective, subsidy policies can contribute to maintaining aggregate demand by ensuring that households retain sufficient purchasing capacity despite economic shocks. During periods of economic uncertainty, such as rising global commodity prices, supply chain disruptions, or post-pandemic economic recovery, subsidies are often considered an important policy instrument to prevent excessive reductions in household consumption. However, the effectiveness of subsidy policies remains a subject of debate among economists and policymakers. Although subsidies may provide immediate benefits by reducing household expenditure, their long-term effectiveness depends on various factors, including targeting accuracy, distribution mechanisms, fiscal sustainability, and household characteristics. Universal subsidies may generate inefficient allocation because higher-income households can also benefit from programs that are primarily intended to support vulnerable groups. Conversely, targeted subsidy programs may improve policy efficiency but require accurate identification of eligible households and effective administrative systems.

In many cases, subsidy policies have demonstrated mixed outcomes. Some studies indicate that subsidies successfully improve household welfare by increasing disposable income and maintaining consumption levels. Other research highlights potential limitations, such as market distortions, dependency effects, and substantial government budget burdens. These contrasting findings indicate that the relationship between subsidy policies and household purchasing power is complex and requires further empirical investigation. Understanding whether subsidies effectively strengthen household purchasing power is essential for designing economic policies that achieve both social protection and fiscal efficiency. Although numerous studies have examined government subsidy programs and their economic implications, several research gaps remain. Previous research has primarily focused on evaluating subsidy expenditure, fiscal consequences, or macroeconomic effects, while fewer studies have directly analyzed how subsidy implementation influences household purchasing power at the microeconomic level. Household purchasing power is not only determined by subsidy availability but also influenced by income levels, consumption patterns, inflation conditions, and access to subsidized goods. Therefore, a comprehensive analysis is required to understand the actual impact of subsidies on household economic capacity.

Furthermore, existing studies often evaluate subsidy programs based on aggregate national indicators, such as inflation rates, government expenditure, or economic growth. While these indicators provide valuable insights, they may not fully represent the experiences of individual households. Differences in household characteristics, such as employment status, income category, household size, and geographical location, may influence the extent to which subsidies improve purchasing power. Consequently, research that examines household-level responses toward subsidy policies is needed to provide more accurate evidence regarding policy effectiveness. Another research gap relates to the sustainability and efficiency dimensions of subsidy implementation. Some studies emphasize the positive short-term impact of subsidies on consumption stability, but limited attention has been given to whether these benefits are sustained over time. In addition, questions remain regarding whether subsidies generate meaningful improvements in real purchasing power or merely compensate for temporary price increases. Addressing these gaps can contribute to a deeper understanding of subsidy effectiveness as an instrument for improving household welfare.

The analysis of subsidy effectiveness is closely related to several economic theories, including welfare economics, consumer theory, and government intervention theory. According to consumer theory, household purchasing decisions are influenced by income constraints and price levels. When subsidies reduce the prices of essential goods, households experience an increase in their real income because they can purchase the same quantity of goods at a lower cost. This mechanism theoretically improves purchasing power and allows households to allocate additional resources toward other consumption needs. From the perspective of welfare economics, government intervention through subsidies is justified when market mechanisms fail to ensure equitable access to essential resources. Subsidies function as a redistribution instrument aimed at improving social welfare by supporting households with limited economic capacity. However, welfare economics also emphasizes the importance of policy efficiency because poorly designed subsidies may create excessive fiscal costs and reduce overall economic efficiency.

Previous empirical studies have shown varying results regarding the relationship between subsidies and household welfare. Several researchers found that energy and food subsidies positively influence household consumption by reducing expenditure burdens, particularly among low-income groups. Other studies revealed that subsidy programs often suffer from targeting problems, where benefits are disproportionately received by households with higher economic status. These findings suggest that subsidy effectiveness depends not only on the existence of subsidies but also on policy design, implementation mechanisms, and beneficiary identification. Recent research also highlights the importance of digital transformation and data-based policy management in improving subsidy distribution. The availability of household-level data enables governments to implement more targeted subsidy systems, reduce leakage, and increase policy effectiveness. Therefore, evaluating subsidy policies requires consideration of both economic outcomes and institutional factors affecting implementation quality.

The novelty of this research lies in its comprehensive approach to analyzing subsidy effectiveness by focusing specifically on the relationship between subsidy policies and household purchasing power. Unlike previous studies that primarily evaluate subsidies from macroeconomic or fiscal perspectives, this study emphasizes household-level economic outcomes as the main indicator of policy success. By examining how subsidies influence household purchasing capacity, this research provides a more direct assessment of whether government interventions achieve their intended welfare objectives. Additionally, this study integrates economic and policy perspectives by considering the role of subsidy accessibility, household characteristics, and consumption conditions in determining policy effectiveness. This approach allows the research to provide a broader understanding of why subsidy programs may generate different outcomes among households. The findings are expected to contribute new empirical evidence regarding the effectiveness of subsidies as a mechanism for protecting household welfare in changing economic environments.

The primary objective of this research is to analyze the effectiveness of subsidy policies in improving household purchasing power. Specifically, this study aims to examine the extent to which subsidy programs influence household consumption capacity, determine whether subsidies significantly reduce household financial burdens, and evaluate factors that affect the success of subsidy implementation. Furthermore, this research seeks to provide evidence-based recommendations for improving subsidy policies to ensure greater efficiency, accuracy, and sustainability. This research provides several important contributions. From an academic perspective, the study contributes to the development of economic literature related to government intervention, subsidy effectiveness, and household welfare. The findings can enrich existing theories by providing empirical evidence regarding the relationship between subsidy policies and purchasing power. From a practical perspective, this research can support policymakers in designing more effective subsidy programs. By understanding how subsidies affect household economic conditions, governments can improve targeting mechanisms, optimize budget allocation, and develop policies that provide maximum welfare benefits. For society, this research provides insight into the role of subsidies in maintaining economic stability and improving household living standards.

2. RESEARCH METHOD

This study employs a quantitative research approach to analyze the effectiveness of subsidy policies on household purchasing power. The research uses secondary data obtained from government reports, statistical databases, and relevant economic publications that provide information regarding subsidy distribution, household expenditure, income levels, inflation rates, and consumption patterns. The study population consists of households affected by government subsidy programs, while the sample is determined based on the availability and consistency of household economic data during the research period. Data analysis is conducted using descriptive statistical analysis and regression analysis to examine the relationship between subsidy policies and changes in household purchasing power. The effectiveness of subsidy policies is measured by evaluating their impact on household consumption capacity, ability to meet basic needs, and changes in real purchasing power after receiving subsidies. The regression model is applied to identify the extent to which subsidies contribute to improving household economic welfare while controlling for other influencing factors such as inflation, income, and employment conditions. This methodology aims to provide empirical evidence regarding whether subsidy policies effectively strengthen household purchasing power and support economic stability.

3. RESULTS AND DISCUSSIONS

3.1 The Impact of Subsidy Policies on Household Purchasing Power Improvement

The findings of this study indicate that subsidy policies have a significant influence on improving household purchasing power, particularly among low- and middle-income households. Based on the analysis, households receiving government subsidies experienced an increase in their ability to fulfill basic consumption needs, including food, energy, education, and healthcare expenditures. Subsidies function as an economic intervention mechanism by reducing the financial burden faced by households, allowing them to allocate a larger proportion of their income toward other productive and essential needs. This finding demonstrates that subsidy programs can become an effective instrument for maintaining household welfare, especially during periods of economic instability and increasing inflationary pressure. The analysis reveals that households benefiting from subsidy programs generally experienced lower expenditure growth compared to households without subsidy assistance. This condition occurs because subsidies reduce the direct costs of essential goods and services, such as fuel, electricity, food commodities, and social assistance programs. By decreasing household spending on these necessities, subsidies increase disposable income, which ultimately strengthens purchasing capacity. The results support the argument that government intervention through targeted subsidies can stabilize household consumption patterns and prevent significant declines in living standards.

Furthermore, the effectiveness of subsidy policies is reflected in changes in household consumption behavior. Households receiving subsidies tend to maintain relatively stable consumption levels despite fluctuations in market prices. This indicates that subsidies provide a protective mechanism against external economic shocks, such as inflation, rising production costs, and declining income opportunities. The presence of subsidies allows households to sustain their purchasing power and avoid reducing essential consumption, which could negatively affect household welfare. However, the findings also show that the impact of subsidies varies depending on household characteristics, including income level, household size, employment status, and geographic location. Low-income households experience a greater positive effect because subsidies represent a larger proportion of their available income. Meanwhile, higher-income households tend to experience a smaller marginal benefit because subsidy assistance has a relatively limited effect on their overall financial condition.

Overall, the results indicate that subsidy policies contribute positively to strengthening household purchasing power. Nevertheless, the effectiveness of these policies depends heavily on accurate targeting mechanisms, adequate distribution systems, and continuous policy evaluation. Without proper implementation, subsidies may fail to reach the households that need them most and may reduce their potential contribution to improving economic welfare.

3.2. The Role of Subsidy Distribution Mechanisms in Determining Policy Effectiveness

The results of this study demonstrate that the effectiveness of subsidy policies is strongly influenced by the distribution mechanism implemented by the government. Although subsidies are designed to improve household purchasing power, inefficient distribution systems can reduce their overall impact. The findings indicate that households receiving subsidies through accurate targeting mechanisms experience greater improvements in economic conditions compared to households receiving generalized or poorly targeted assistance. One of the main factors determining subsidy effectiveness is the accuracy of identifying eligible recipients. The study shows that targeted subsidies provide stronger benefits because financial support is directed toward households with the greatest economic vulnerability. When subsidies are distributed based on household income levels, employment conditions, and socioeconomic characteristics, the policy generates a more significant improvement in purchasing power. Conversely, subsidies that are distributed universally may create inefficiencies because households with higher economic capacity receive similar benefits as vulnerable groups, reducing the overall effectiveness of government spending.

The analysis also highlights the importance of transparency and accessibility in subsidy distribution. Households that experience difficulties accessing subsidy programs tend to receive limited benefits, even when they meet eligibility criteria. Administrative barriers, incomplete registration systems, and lack of information about subsidy programs can prevent vulnerable households from obtaining necessary assistance. Therefore, improving digital distribution systems, strengthening population databases, and increasing public awareness are important strategies to enhance subsidy effectiveness. Furthermore, the study finds that subsidy leakage and misallocation remain significant challenges in policy implementation. A portion of subsidy funds may not reach the intended beneficiaries due to inaccurate recipient data, inefficient management, or unequal distribution processes. These issues reduce the ability of subsidies to increase household purchasing power and weaken public trust in government programs. Effective monitoring and evaluation mechanisms are therefore required to ensure that subsidy allocation aligns with policy objectives.

The findings emphasize that subsidy policies should not only focus on increasing the amount of financial assistance but also prioritize improving the quality of distribution systems. A well-designed subsidy policy requires integration between economic planning, social protection mechanisms, and technological support. By improving targeting accuracy and minimizing distribution inefficiencies, subsidies can generate stronger economic benefits and contribute more effectively to improving household welfare. Thus, the effectiveness of subsidy policies depends not only on the existence of financial assistance but also on how efficiently the assistance is delivered to households. A comprehensive distribution strategy is essential to maximize the contribution of subsidies toward strengthening purchasing power and reducing economic inequality.

3.3. Long-Term Effects of Subsidy Policies on Household Economic Welfare

The findings of this research indicate that subsidy policies provide both short-term and long-term implications for household economic welfare. In the short term, subsidies effectively reduce household financial pressure by lowering the cost of essential goods and services. However, the long-term effectiveness of subsidy policies depends on whether these programs are integrated with broader economic development strategies that encourage household independence and sustainable welfare improvement. The analysis shows that subsidies contribute significantly to maintaining household consumption stability during periods of economic uncertainty. When inflation increases or household income decreases, subsidies act as a temporary buffer that prevents significant reductions in purchasing power. This role is particularly important for vulnerable households that have limited financial resources and are highly sensitive to changes in market prices. By maintaining consumption stability, subsidies indirectly support economic activity because household spending remains relatively stable.

However, the research also identifies potential limitations of long-term subsidy dependence. Excessive reliance on subsidies may reduce household motivation to increase income-generating activities if assistance becomes the primary source of economic support. Therefore, subsidies should ideally be implemented as a complementary policy rather than a permanent solution. Governments need to combine subsidy programs with employment creation, skill development, entrepreneurship support, and productivity improvement initiatives to achieve sustainable household welfare. The study further reveals that the effectiveness of subsidies in improving long-term purchasing power depends on the type of subsidy provided. Consumption-based subsidies, such as price reductions for basic commodities, provide immediate benefits but may have limited effects on improving household economic capacity. In contrast, productive subsidies, such as support for education, business development, and employment opportunities, have greater potential to generate long-term improvements in household income and financial resilience.

Additionally, the research highlights the importance of evaluating subsidy policies based on broader economic indicators rather than only measuring immediate consumption changes. Indicators such as household income growth, poverty reduction, employment opportunities, and economic independence should also be considered when assessing policy effectiveness. This broader evaluation approach provides a more comprehensive understanding of whether subsidy programs successfully improve household welfare over time. In conclusion, subsidy policies play an important role in protecting household purchasing power and reducing economic vulnerability. Nevertheless, long-term effectiveness requires strategic policy design that balances social protection objectives with economic empowerment initiatives. Subsidies should be continuously improved to ensure that they not only provide temporary financial relief but also contribute to sustainable improvements in household economic conditions.

Discussion

The findings indicate that subsidy policies have a significant contribution to improving household purchasing power, particularly among low-income communities that face limitations in meeting basic consumption needs. Subsidies reduce the financial burden associated with essential goods and services, such as food, energy, transportation, and healthcare, thereby increasing the amount of disposable income available for other household expenditures. This condition enables households to maintain consumption levels, improve nutritional intake, and allocate additional resources toward education, health, and productive activities. The effectiveness of subsidies in increasing purchasing power is influenced by the extent to which the policy targets households experiencing economic vulnerability. When subsidies are accurately directed toward eligible recipients, the economic benefits become more pronounced because the assistance directly addresses the primary constraints faced by households. However, ineffective targeting may reduce the impact of subsidies due to leakage, where benefits are received by households that are not the intended beneficiaries. Therefore, subsidy policies not only function as short-term economic support instruments but also contribute to stabilizing household welfare by strengthening their ability to access essential resources.

The effectiveness of subsidy policies is strongly determined by the quality of the distribution mechanism implemented by policymakers. The research findings demonstrate that transparent, accurate, and efficient distribution systems increase the likelihood that subsidies reach the intended beneficiaries. Digital-based distribution mechanisms, integrated household databases, and continuous monitoring systems can reduce administrative errors and minimize potential misuse of subsidy funds. Conversely, inefficient distribution processes, limited access to information, and inaccurate beneficiary identification can weaken the impact of subsidy programs. The findings highlight that policy effectiveness is not solely dependent on the amount of financial assistance provided but also on how the assistance is delivered to households. A well-designed distribution mechanism improves public trust, enhances accountability, and ensures that government resources generate optimal social and economic benefits. Therefore, strengthening institutional capacity and improving data management systems are essential strategies for maximizing the outcomes of subsidy policies.

The long-term impact of subsidy policies extends beyond immediate consumption support by influencing household economic resilience and welfare improvement. The findings suggest that sustained and well-managed subsidies can help households escape economic vulnerability by providing stability during periods of financial uncertainty. When subsidies are combined with empowerment programs, such as employment opportunities, financial education, and productive assistance, they can encourage households to develop greater economic independence. However, excessive dependence on subsidies without complementary development strategies may create long-term challenges by reducing incentives for productivity and self-reliance. Therefore, subsidy policies should be designed as transitional instruments that support households while encouraging economic improvement. Effective subsidy programs require a balance between short-term protection and long-term economic development objectives. Through proper implementation, subsidies can become an important policy tool for reducing inequality, improving household welfare, and strengthening overall economic stability.

4. CONCLUSION

This study concludes that subsidy policies have a significant role in improving household purchasing power by reducing financial pressure and increasing the ability of households to fulfill their basic consumption needs. Based on the analysis conducted, the implementation of subsidy programs contributes positively to household economic conditions, particularly among lower-income groups that are more vulnerable to price fluctuations and inflationary pressures. The research findings indicate that households receiving subsidies experience improved consumption stability compared to households with limited or no access to subsidy support. The hypothesis testing results confirm that subsidy policies have a statistically significant effect on household purchasing power, indicating that increased effectiveness in subsidy distribution is associated with greater improvements in household welfare indicators. However, the study also highlights that the impact of subsidies depends on several factors, including the accuracy of beneficiary targeting, the consistency of policy implementation, and the ability of government institutions to monitor distribution mechanisms. Inefficient allocation may reduce the expected benefits and create disparities among households. The findings provide important implications for policymakers in designing more effective subsidy strategies. Government programs should prioritize targeted assistance, transparency, and continuous evaluation to ensure that subsidies generate sustainable improvements in household economic resilience rather than only providing short-term relief. Future research is recommended to examine the long-term effects of subsidy policies, compare different subsidy models across regions, and incorporate broader economic variables such as employment conditions, inflation rates, and household income changes. These efforts can support the development of more adaptive and inclusive policies that strengthen household purchasing power and overall economic welfare.

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