Distributional impact of fiscal policy
Public order and safety

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1. Extend the discussion outline by Ian Preston to publicly-provided *public goods*

2. Discuss how researchers have valued the benefits of public order and safety

3. Address two particular questions about how one would proceed
Willingness to pay: publicly-provided private goods
Willingness to pay: publicly-provided *public* goods
Income and willingness to pay: publicly-provided private goods
Income and willingness to pay: publicly-provided *public* goods
Both.

Cooter & Ulen (2000) note four aims of the criminal justice system:

- Retribution (public good)
- Rehabilitation (public good)
- Deterrence (public and private?)
- Incapacitation (public and private?)
What is the distribution of intrinsic (utility) valuation for something like public order or safety?

In the absence of evidence to the contrary a reasonable assumption is that everyone benefits the same

- i.e. Identical preferences

This does not imply that everyone places the same cash value on the good/service

- Those with ‘low’ income would be willing to pay less than those with ‘high’ income as their other needs are greater
The framework outlined is a theoretical one

- Though there are possibly credible empirical applications
- It can, though,
  - ...inform structure of empirical research design
  - ...guide understanding of what biases are introduced if assuming every household places same cash valuation on a publicly-provided good
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Methods for eliciting valuations placed on spending on public order/safety

1. Look at comparable private markets
   ▶  Private security?

2. Infer value from prices in adjacent markets
   ▶  House prices
      ▶  Thaler (1978); Gray and Joelson (1979); Rizzo (1979); Lynch et al. (2000); Gibbons (2004)
      ▶  Taxi rides versus night buses?

3. Contingent valuation (direct survey evidence/jury awards)

4. Shadow pricing of happiness
   ▶  Powdthavee (2005)
Some useful references

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Q: Would sensitivity tests, e.g. assuming the value of in-kind transfers were only 50% of its cost be useful?

A: Yes to sensitivity tests! But of what type?

- Sensitivity to assumption of equal cash valuation would be very welcome
- Need a mapping from utility (perhaps conditional on use) to cash valuations.
- Would we ever be confident that we have got this exactly correct?
- So worth assessing sensitivity over that mapping
- Can’t assume that all spending generates positive value for all individuals (immigration control? defence?)
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The qualification:

- There is no ‘best practice’ in placing cash valuation on public order and safety
- Empirical studies will necessarily yield imprecise, uncertain estimates that are sensitive to methods and assumption
- If country teams face binding time, resource and data constraints – other areas of fiscal policy may, but won’t necessarily provide more valuable areas for focus