Distributional impact of fiscal policy Public order and safety

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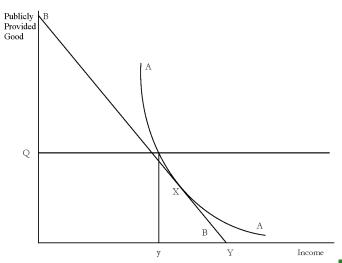
11th June 2013



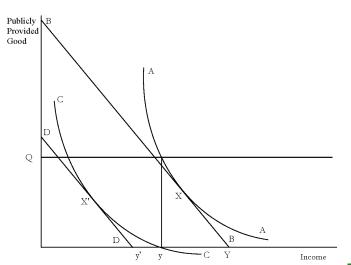
- 1. Extend the discussion outline by Ian Preston to publicly-provided *public goods*
- 2. Discuss how researchers have valued the benefits of public order and safety
- 3. Address two particular questions about how one would proceed



Willingness to pay: publicly-provided private goods

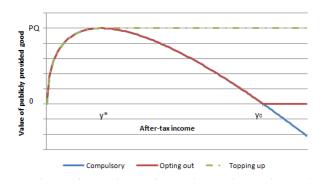


Willingness to pay: publicly-provided public goods



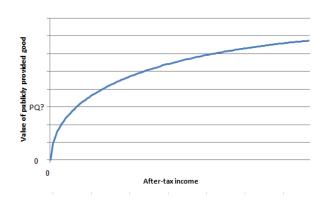


Income and willingness to pay: publicly-provided *private* goods





Income and willingness to pay: publicly-provided *public* goods





Public order and safety: public good or private good?

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?)



Willingness to pay: discussion

- 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



Income and willingness to pay: limitations

- ▶ 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)
 - ► Cook and Ludwig (2000) and Ludwig and Cook (2001), Cohen et al. (2004). Atkinson et al. (2005)
- 4. Shadow pricing of happiness
 - ▶ Powdthavee (2005)



Some useful references

- Very useful review article on literature on monetizing the costs of crime:
 - Czabanski, J. (2008) Estimates of Cost of Crime: History, Methodologies, and Implications
- Some empirical work in this area, focussing on developing countries
 - ► Soares, R., (2006), The welfare cost of violence across countries, Journal of Health Economics, 25, issue 5, p. 821-846
 - ▶ Di Tella, R., Edwards, S. & Schargrodsky, E. (2010), "The Economics of Crime: Lessons for and from Latin America," NBER Books. National Bureau of Economic Research. Inc.
 - ▶ Bourguignon, F., (1999). Crime, violence, and inequitable development. In Boris, P., Joseph, S. (Eds.), Annual World Bank Conference on Development Economics
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Two questions to address (1)

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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Two questions to address (2)

Q: Should practitioners limit the analysis to concentration shares and concentration coefficients of 'access' to services without trying to monetize their value?

A: A qualified no.

► There is theory and there are methods that can inform empirical studies



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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

