Distributional Impact of Fiscal Policy In-Kind Benefits: Food, Health, Education

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Summary

- What is best practice in identifying economic incidence of in kind transfers?
 - Cost of provision or private value?
- ► In kind education provision
 - ► Nature of benefits
 - Conceptual issues
 - ► Evidence



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Cost of provision or private value

- Most frequent method takes cost of provision and allocates by use
 - Justified by feasibility more than theoretical attractiveness
 - Should be aware of possible distortions introduced
- ► Aim should be to evaluate impact of government provision on welfare in a way that can be combined with analysis of effect of cash transfers
- Cost of provision is relevant because of the need to finance this cost but this is captured in associated tax payments
- ► The ideal measure of benefit should be the equivalent monetary value of the service to the recipient



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Problems with using cost

- Evaluating by cost obviously goes wrong if the service provided is actually harmful
- ► Democratic processes should be expected to ensure typically beneficial provision
- Benefits and costs arguably linked in aggregate by rational policy making
- However distribution of willingness to pay and costs of provision may be weakly correlated



- Suppose a good is privately provided and
 - demands are proportional to income
 - the good is competitively provided at constant marginal and average cost
- ► The government takes over provision and
 - provides the same quantities, proportional to income
 - ▶ funds provision by proportional tax payments
- Government provision has no effect on welfare
- Evaluation according to cost allocated by use is exactly right



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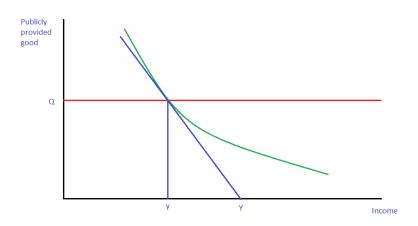
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Private value: publicly-provided private good





- Suppose now that government provision is equalised
 - everyone receives mean provision
 - ▶ if we like, assume now funded through a uniform lump sum tax
- ► Everyone except the mean recipient is worse off
- ► Total cost now exceeds total benefit
- ▶ The distribution is not captured by the distribution of use



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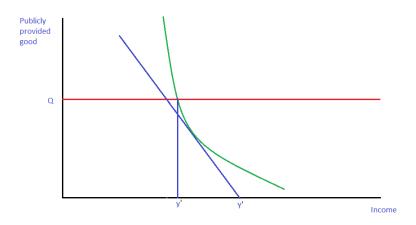
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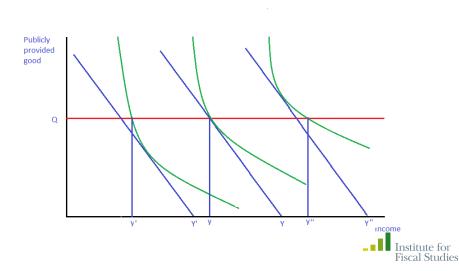


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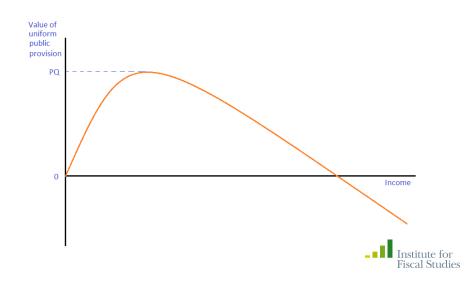




Distribution of private values: publicly-provided *private* goods



Private values as a function of income: publicly-provided private goods

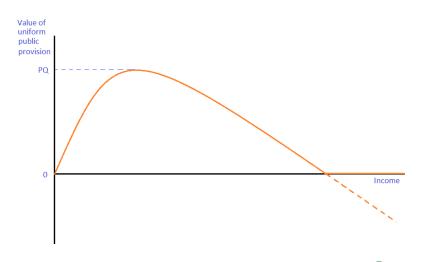


Public provision of private goods: opting out

- ▶ If individuals can opt out
 - ► richer households for whom value would otherwise be negative will choose to consume privately instead



Publicly-provided *private* goods: opting out





Public provision of private goods: topping up

- ▶ If individuals can opt out of public provision then
 - richer households for whom value would otherwise be negative will
- ▶ If individuals can supplement public provision then
 - benefits will not decline for richer households.
 - cost of provision will accurately reflect use at the top end

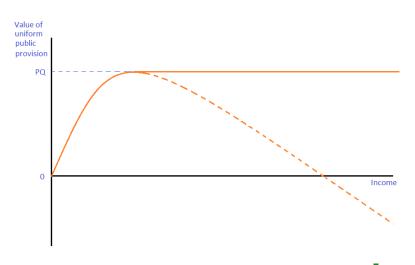


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Public provision of private goods: private reselling

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- ▶ If individuals can sell the publicly provided good then
 - provision will be equivalent to a cash transfer
 - benefits will be flat
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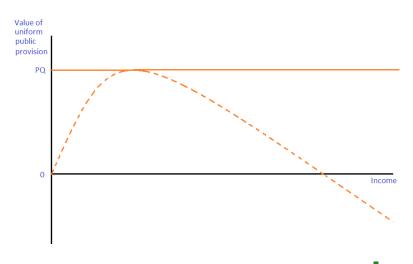


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Publicly-provided private goods: reselling





Distribution of quantities

- Distributional impact follows from
 - ▶ the level of service provided
 - the way in which willingness to pay for service provided varies with income
- ► The determination of level of service is a matter of political economy
 - Presumably suits the politically most influential
- ► More affluent individuals may be able to find ways to enhance entitlement to consumption of better quality services
 - ► They may (moving to better neighbourhood) or may not (social advantage) have to pay for that



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Sources of information on valuation

- Several potential sources available to the inventive
 - Willingness to pay surveys
 - Voting data
 - Capitalisation of locally specific benefits
 - Markets for substitutes
- ... but none of these seem especially robust



Benefits of education spending

- Part of the benefit of education may be consumption benefit but most is received in monetary terms in improved future earnings
- ► This raises important conceptual issues
 - Need to model returns to education
 - ► Benefits received in future calls for life-cycle perspective
 - Identity of beneficiaries is unclear parents, children, dynasties?
 - Makes a difference whether costs allocated according to income of parents, current income of student, future income of student



- ► To what extent do benefits vary with income?
- Participation differs with income
 - Private costs of participation (forgone work, earnings) higher for more borrowing-constrained - higher nonattendance, higher dropout
 - ▶ Selection into higher levels of education favour the better-off
- ► Returns differ with income
 - Return to education may be complementary to income-related characteristics
 - ▶ Better educated families more familiar, more socially at ease with system
 - Peer effects may be significant
- Quality of school differs with income
 - ► Rich can afford more effort to satisfy entry criteria (moving near to better schools)
 - Political economy of provision may direct resources to the better off



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