

# “WHY IS SO MUCH REDISTRIBUTION IN-KIND AND NOT IN CASH? EVIDENCE FROM A SURVEY EXPERIMENT”

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# SUMMARY

# Classic question: In-kind vs. cash transfers

PUBLIC EXPENDITURES ON FOUR IN-KIND PROGRAMS, SELECTED OECD COUNTRIES

	Health %GDP 2002	Housing %GDP 2001	Child Care %GDP 2003	Education %GDP 2003	Active Labor Market %GDP 2001
Australia	6.1	0.1	0.4	4.7	0.1
Austria	7.6	0.1	0.6	5.1	0.1
Canada	6.7	..	0.2	5	0.4
Denmark	7.3	0.7	1.6	7.3	0.2
France	7.9	..	1.2	5.2	0.4
Germany	8.4	..	0.4	4.2	0.3
Greece	4.6	..	0.4	3.9	NA
Ireland	5.4	0.5	0.2	4.3	0.4
Japan	6.5	..	0.3	3.3	0.1
Netherlands	5.6	0.4	0.5	4.7	0.4
New Zealand	6.4	0.6	0.4	6.5	0.1
Norway	8.2	0.2	1	7.1	NA
Portugal	6.5	..	0.8	5.3	0.1
Spain	5.2	0.2	0.6	3.8	0.4
Sweden	7.7	..	1.2	7	0.2
United Kingdom	6.4	1.5	0.6	5	NA
United States	6.6	..	0.6	5.3	0.2

Source: Currie and Gahvari 2008 JEL



# Efficiency arguments for in-kind transfers

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- Market failures: Credit constraints prevent efficient allocation of resources (e.g., education)
- Market failures: Asymmetric information (e.g., adverse selection in health insurance markets)
- Screening / targeting (Akerlof 1978; Nichols and Zeckhauser 1982)



# This paper

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Conduct a survey of hypothetical choices between cash transfers and “**necessities**” **account** (housing, transportation, food at home, clothing, utilities, healthcare, and education) in a large, representative sample

- Public attitudes show overwhelming preference for redistribution through necessities account rather than cash
- Largely due to **paternalism**
- The poor themselves tend to prefer cash, though not quite as strongly—a sizable share (23%) prefer in-kind transfers as a **self-control** mechanism



# ARGUMENTS FOR IN-KIND TRANSFERS

# Unpacking paternalism

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- What do we mean by **paternalism**?
  - “the belief that the poor will not spend cash on the right things”

# Unpacking paternalism

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- What do we mean by **paternalism**?
  - “the belief that the poor will not spend cash on the right things”
- Survey methodology can potentially shed light on:
  - What are “the right things”? (Musgrave 1959)
  - Why might the poor not spend on them?
  - Why do respondents think the poor will not spend on them?
  - Why do respondents care whether the poor spends on them?

→ Important when thinking about **policy implications**



# Preference arguments for in-kind transfers

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What are “the right things”? Why do respondents care whether the poor spends on them?

- Commodity-specific egalitarianism: Universal access to basic level of food, housing, healthcare (Tobin 1970)
- Inter-dependent preferences: Your utility depends on the consumption of others, perhaps because of belief that access to certain goods is a right
  - “At least one of the goods (healthcare, housing, food) is a right to which everyone should have access.” (Categories are rights)
- Policy implication: Is the necessities account too flexible? What are the categories that people value most?



# Preference arguments for in-kind transfers

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## Why might the poor not spend on them?

- Myopia: Individual choices fail to maximize own long-term utility
  - “This program will make sure poor people spend the money only on things that will make them better off.” (Paternalism)
- Policy implication: Restrict choice even further (e.g., prevent SNAP spending in certain categories)?



# Preference arguments for in-kind transfers

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## Why might the poor not spend on them?

- Externalities: Parents' choices fail to maximize child well-being
- Externalities: Individual choices only account for private benefit and not benefits to society

Preference regarding children not an option in the survey (also did not show up in free responses)

“This program will do more to make the rest of society better off (for example, by saving taxpayers money in the long term).” (Society better off)

- Policy implication: Directly subsidize programs that benefit children (e.g., education) or society



# Open question

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- How strong are these preferences, and how to weigh them against conventional efficiency arguments?
- What is the optimal level of flexibility?
  - Also see Campbell and Gaddis (2016) “I Don’t Agree with Giving Cash” paper for a related survey design on support for different public assistance programs



# Novel channel: Self-control and commitment

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- Extensive literature with a long list of possible rationales for in-kind transfers: credit constraints, asymmetric information, screening/targeting, commodity-specific egalitarianism, child well-being, externalities, inter-dependent preferences
- This paper: Demonstrates the importance of a **new channel**
  - The poor themselves may prefer in-kind assistance
  - Sophistication: They are aware of the tendency to spend money on unnecessary purchases and prefer a lack of flexibility as a form of commitment



# SURVEY DESIGN

# Priming?

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- Paper discusses Hawthorne effects: “respondents, knowing they are being observed, give answers that do not align with their true beliefs—may have distorted some of our study results. But, again, this is unlikely to have seriously undermined our conclusions. There is no generally conceived “correct” or “socially appropriate” response to the best method of redistribution (in-kind or cash)”
- What about experimenter-demand effects?
  - Respondents **change their stated preferences** when presented with a “right” choice (the argument that cash allows people to do what is best for them)
  - Respondents **do not change their stated preferences** when presented with **facts**, even if the facts contradict their misconceptions that the poor do not spend enough on necessities



# Incentives?

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- Can incentivize choices: donation choices to charities that either provide direct cash assistance or some form of in-kind assistance
  - An example: Would the respondent prefer that the experimenter gives money to GiveDirectly (cash) or would they prefer that the experimenter gives the same amount to Feeding America (food)?
- Significant improvement relative to existing survey-based literature on preferences regarding redistribution and taxation

**GiveDirectly**



## CONCLUDING REMARKS

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- Perfect question for applying the methodology
  - Especially with the potential to **incentivize** responses, unlike in related work
  - Additional design improvements could potentially address concerns about experimenter-demand effects
- Novel mechanism for preference for in-kind transfers among **recipients**—self-control: “Having rules about how I can spend the money would help me make better financial choices”
  - Chosen more often than “At least one of the goods (healthcare, housing, food) is a right to which I should have access”!
- Highly policy-relevant; opens up exciting new questions
  - E.g., what is the optimal level of flexibility? (See Lieber and Lockwood 2019 AER on a possible cost of moving toward more flexible benefits)

