

Distributional impact of fiscal policy

Public order and safety

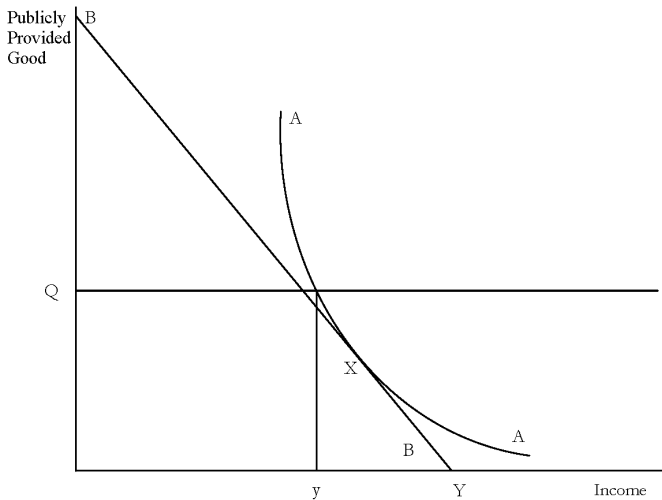
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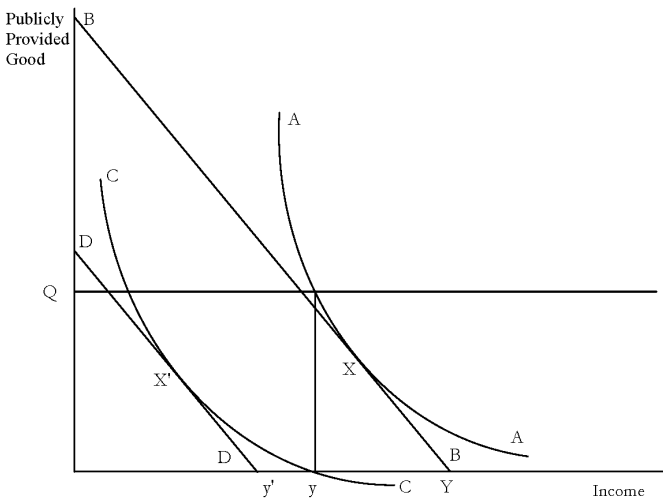
11th June 2013

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

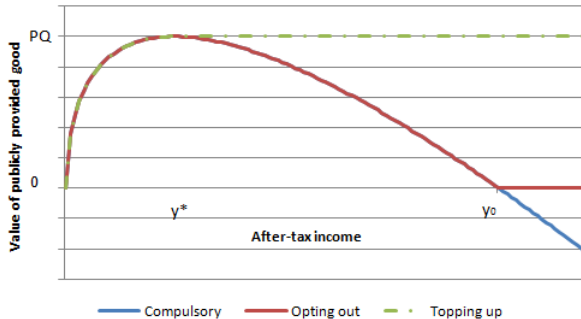
Willingness to pay: publicly-provided *private* goods



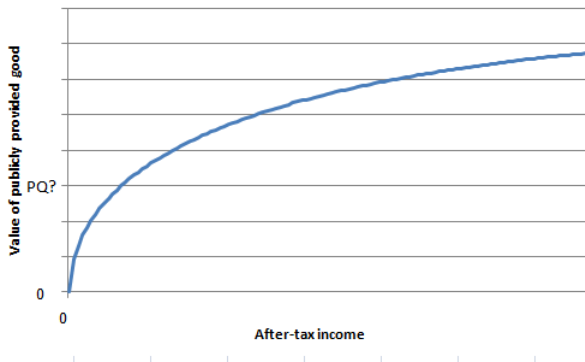
Willingness to pay: publicly-provided *public* goods



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?)

- ▶ 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. & Schargrotsky, 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

Two questions to address (2)

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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