Cash or help in kind?

Cash vs in kind, the welfare cliff, the phase-out, the negative income tax, and what Mexico's Progresa and Finland's trial show.

1 Problem · tool

poverty line · transfer

- **Poverty line** = income a family needs for the basics · below it = poor · toy: needs **$1,500**, earns $1,200 ⇒ gap **$300**
- **Transfer** = government pays people, **nothing sold in return**, paid by taxes · **cash** · **in kind** (food, housing, health care)

2 Cash or kind

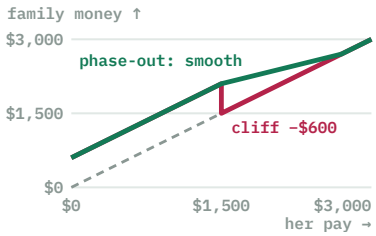
voucher = cash?

- Spends $400 on food, voucher $300 ⇒ own money on food $100 ⇒ **same as cash** ($300 freed)
- Spends $200 on food, voucher $300 ⇒ must buy **$100 more food** ⇒ voucher ≠ cash · **rule**: differs only if family would have bought **less** of that good
- Practice: spends $200, voucher $500 ⇒ frees **$200**, extra food **$300** · cash $500 − $200 = **$300** more free money
- `CASH` family chooses · cheap to hand out · `KIND` ties help to one need · goes where taxpayers meant

3 Welfare cliff

help stops at once

- Family money = `pay + help` · lesson: help **$600** if pay ≤ $1,500 · pay 1,500 ⇒ **$2,100** · pay 1,501 ⇒ $1,501 · to be back at $2,100 pay must reach **$2,100**
- Raise $1,500 → $1,600 ⇒ +$100 pay − $600 help = **−$500** · **effective marginal tax rate** = help lost ÷ extra pay = **600%** ⇒ turn the raise down?
- Practice: help $400 if pay ≤ $1,000 · pay 1,000 ⇒ $1,400 · pay 1,100 ⇒ $1,100 = **−$300** · tax **400%**



4 Phase-out

help shrinks step by step

- Above the limit, help falls **50¢** per extra dollar ⇒ ends after `help ÷ cut` = 600 ÷ 0.5 = **$1,200** more pay ⇒ at **$2,700** · line never drops
- Raise $1,500 → $1,600 ⇒ +$100 − $50 = **+$50** · tax rate **50%** (not 600%) ⇒ work pays
- Practice: help 400, limit 1,000, cut 50¢ ⇒ ends at 1,000 + 800 = **$1,800** · pay 1,400 ⇒ help $200, family **$1,600** (+$200)
- Cut 25¢ ⇒ tax rate **25%** · cost: help reaches **higher pay** ⇒ more taxes needed
- **Cliff**: stops at $1,200 · meals under $2,000 · voucher lost at limit · **smooth**: −30¢ · base payment −50¢ · tax credit (pay top-up via taxes) shrinks

5 Negative income tax

Friedman, 1962

- Milton Friedman (US economist) · base amount for all, **shrinks from the first dollar** earned · above the line: pay tax as usual
- Base $600, cut 50¢ ⇒ ends at `600 ÷ 0.5` = **$1,200** · cut 25¢ ⇒ **$2,400** · work pays more but costs more
- **Big base · gentle cut · low cost** ⇒ a plan gets two of three, **never all**

6 Evidence

Mexico · Finland

- **Progresa**, Mexico 1997 · cash to mothers if children in school + checkups · **506** villages, **320** first, by lot = **randomized trial** (chance ⇒ groups alike ⇒ gap = effect)
- First two years · middle-school enrollment girls **+9 points** (toy: 70% → **79%**), boys **+6** · **percentage point** = plain gap between two percentages · practice 68% vs 60% ⇒ **8 points** · spread to Brazil's Bolsa Família ("Family Grant")
- **Finland** 2017-18 · **2,000** unemployed (25-58) by lot · **€560** a month (≈ $650), tax-free, kept if they worked · year 2: **78** vs 72 days worked · less stress · could **not** show what taxes for a basic income (same payment for everyone, no conditions) would do

7 Trade-off

facts · values · card

- **Positive** = what is · **normative** = what should be · "Progresa raised girls' enrollment by 9 points" (data) ≠ **normative** "families should get cash, not vouchers" (values)
- Cash: choice · low cost ↔ kind: control · help goes where meant · cliff ↔ phase-out: work pays vs cost
- Policy card: problem **families below the poverty line** → tool **cash or kind, with or without conditions** → model **cliff: raise costs money · phase-out: work pays, costs more** → evidence **Mexico +9 points · Finland +6 days** → trade-off **choice vs control · generous vs work pays vs cheap**