



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.

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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)

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Cash or kind

voucher = cash?

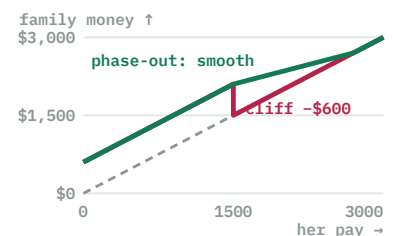
- Spends \$400 on food, voucher \$300 ⇒ own money on food \$100 ⇒ **same as cash** (\$300 freed)
- Spends \$200 on food, voucher \$300 ⇒ must buy **\$100 more food** ⇒ voucher ≠ cash · **rule**: differs only if family would have bought **less** of that good
- Practice: spends \$200, voucher \$500 ⇒ frees **\$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

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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%**



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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¢ · grant –50¢ · credit shrinks

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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**

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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** (70% → **79%**), boys **+6** · **percentage point** = plain gap between two percentages · practice 68% vs 60% ⇒ **8 points** · spread to Brazil's Bolsa Familia
- **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 for everyone would do

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Trade-off

facts · values · card

- **Positive** “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**