Comments on "Subsidy Design and Asymmetric Information: Wealth versus Benefits" by S. Grassi and C.A. Ma

- Model
  - individuals differ in wealth and taste (or benefit) for an indivisible good
  - subsidy scheme: either based on observable wealth or on observable taste
  - assignment set: number of individuals who purchase the good
- This paper:
  - design of each policy to induce the same assignment set (and the same public expenditures)
  - design of optimal utilitarian policy when wealth is observable

- questions and related literature:
  - categorical transfers: one can divide the population in observable sub-groups and target transfers accordingly.

    $\rightarrow$ this paper compares policies according to the characteristics of observable dimension of sub-group (wealth or benefit)

    strong assumption of statistical independence: each sub-group have the same non observable characteristics.

    As a result, no transfers between groups (?) and the policy design needs not be group dependent(?)

– public provision of (divisible) private goods.

main question addressed in the literature: why and how (in kind or subsidy) should a regulator provide private goods?

* Atkinson Stiglitz (JPubEc,): observable taste, non observable productivity.
  no need to distort private good allocation if separability between work and consumption
* Cremer and Gahvari (EER, 1995): same as Atkinson and Stiglitz.
  without separability:
  (i) tax/subsidy or in kind equivalent if individual's consumption of private good is observable
  (ii) tax/subsidy+in kind necessary if individual's consumption of private good is unobservable (anonymous transaction)

* Rochet (Geneva Papers, 1991): extension of Atkinson-Stiglitz to Social Insurance
  individuals differ in unobserved productivity and probability of illness (equivalent to $g(l)$)
  providing insurance is welfare improving and complete coverage if negative statistical dependence between probability of illness and labor productivity.

* Literature in which taste for private good is unobservable (here l)
(i) welfarist approach with non observable wealth and taste for the private good: Cremer et al. (ITPF, 1996)
(ii) non welfarist approach: assignment set can be motivated by a (de)merit good argument (Musgrave, 1959): the government wants to (dis/en)courage the consumption of a particular good.
exactly the paper by Racionero (ITPF, 2000) with non observable wealth and taste for the private good.

Other Questions

1. Why doing this? Why comparing two information structures? less costly to obtain one information or an other?

   "there is no need for a regulator to obtain both wealth and benefit information": but it you have both at zero cost you reach the first best!

2. Why not having a social objective with a given constraint on the “assignment set” (justified by the merit good argument or minimum standards)?

3. You say in Canada and Europe health insurance is based on illness severity but not on wealth.

   - In France, CMU is universal coverage for the poor and generally social contributions depend upon income.

- In SHI countries, two types of contributions: social contributions depend on income and the supplemental premium paid to sickness funds is generally subsidized for the poor.
- In NHS, social contributions depend upon income.

4. Do you observe wether individuals buy the good or not?

5. Not sure that assumption on utility $V(l) = l$ is neutral in section 5.