Choices of a poverty alleviation program under double asymmetric information about income and productivity

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Abstract

When a government implements cash transfers for poverty alleviation, a policymaker often faces the screening problem that makes him in trouble to identify the individuals who should be rescued because of the existence of asymmetric information about individual productivity between the public and the government. The self-selection mechanisms like workfare and in-kind transfers are known as a solution of the screening problem and adopted in both developing and developed countries. However, these self-selection systems are realized only when the government observes individual income. In this paper, we propose one mechanism which enables cost-effective poverty alleviation even if individual income cannot be observed. The government offers two poverty alleviation programs and lets each community to choose one of them. By letting each community to choose the better program for itself, the policymaker can make self-selection system and the government grasps the proportion of the poor people.

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