Self-targeted redistribution:
Pareto optimal in-kind transfers and their effects on labor supply

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Abstract

This paper explores the optimal design of redistribution policy utilizing in-kind transfers. It is demonstrated that Pareto optimal in-kind transfers under "self-targeting" mechanism will result in higher labor supply compared with the optimal non-linear income taxation. Furthermore, it is shown that if the publicly provided good is a merit good, the labor supply will increase even if the condition that establishes the self-targeting mechanism is not satisfied.

Key words: Redistribution; In-kind transfers; Self-targeting mechanism; Labor supply; Non-linear income taxation; Merit goods

JEL classification: H21; H42; I38; J22

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