

What's So Puzzling About The Cashout Puzzle?

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The purpose of this paper is to propose an explanation for the "cashout" puzzle in the US Food Stamp Program. Many studies have concluded that the marginal propensity to consume food out of food stamps in the US is higher than that out of cash income. In particular, this result holds for households which are not constrained in their food expenditure behaviour, contrary to conventional economic theory.

We explain this in terms of differential impact of cash income and in-kind transfers on intra-household division of control over resources. We develop a Cournot model of a multi-person household with food as a domestic public good where the replacement of in-kind transfer by an equivalent increase in household cash income may reduce household expenditure on food. We find empirical support for the predictions of this model in data from a US cash-out experiment, and find reason to question the alternative stigma-based explanation.

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