

Ethics and Redistribution

I'm out of quotes — Ivo Welch.

Ivo Welch

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Utility Functions

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- ▶ Typically, they mean that an $x\%$ income loss “hurts” more if you make \$20,000/year than if you make \$1,000,000/year.
- ▶ (Behavioral economists have found strong reference point effects, too.)
 - ▶ \$50,000/year feels different if you used to earn \$20,000/year than if you earned \$1,000,000/year

Inequality

Wealth or Income Setup:

- ▶ 10 poor people, each \$1,000.
- ▶ 1 rich person, \$100,000.
 - ▶ PS: likely will be you.
- ▶ Inequality Ratio: 100-to-1

Questions

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- ▶ Should society redistribute wealth?
- ▶ Does it matter whether it's inherited? “Earned”?

What If?

(Base: 10 x \$1,000. 1 x \$100,000)

- ▶ Take \$50,000 from rich. Give \$5,000 each to poor.
- ▶ Greatly reduced inequality.
 - ▶ 10 poor people, each \$6,000.
 - ▶ 1 rich person, \$50,000.
 - ▶ Inequality Ratio: 100-to-12, not 100-to-1

Better?

What If?

(Base: 10 x \$1,000. 1 x \$100,000)

- ▶ Take \$50,000 from rich. Give \$2,500 each to poor. Lose \$2,500 in process.
- ▶ Greatly reduced inequality.
 - ▶ 10 poor people, each \$3,500.
 - ▶ 1 rich person, \$50,000.
 - ▶ Inequality Ratio: 100-to-7, not 100-to-1

Better?

What If?

(Base: 10 x \$1,000. 1 x \$100,000)

- ▶ Take \$50,000 from rich. Lose all in process.
- ▶ Still greatly reduced inequality.
 - ▶ 10 poor people, each 1,000.
 - ▶ 1 rich person, \$50,000.
 - ▶ Inequality Ratio: 100-to-2, not 100-to-1

Better?

Incidentally...

- ▶ Almost all wealth statistics are quoted *before* redistributive activities.
- ▶ In real life, not all redistribution is from rich to poor.

Fighting CC

Setup:

- ▶ 10 poor people, each earning \$1,000/year.
- ▶ 1 rich person, earning \$100,000/year.

Choices:

- ▶ #1: Reduce income of poor people by 1% each
- ▶ #2: Reduce income of rich person by 1% each
- ▶ #3: Reduce income of poor and rich alike by 0.5%

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(What would most economists propose?)