

Comments on Jaffe and Russell

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Outline

- Obligatory nice things
- Vicious and unfair attack
- My hobby horse

Beginning observation

- I think paper is about flood relief and hurricane not 9/11 or perhaps earthquakes.
- Events that occur often enough that there is a plausible way to make judgments about probabilities.

Nice things

- Discussion of trends in disaster relief that show that.
 - More disasters
 - Less involvement of private markets
 - Increasing role of government
 - Inadequate mitigation – will come back to this.

Nice things II

- Clear discussion of the difficulties of making welfare judgments when subjective probabilities are involved.
 - Uses simplest possible model and is very clear.
 - Show how difficult it is to say anything if you stay within Bergsonian framework.
 - Still manages to give nice illustration of constructive and destructive markets.

Viscous Unfair Attack I

- The paper exposes the silliness of classical welfare economics.

Vicious Unfair Attack II

Classical welfare economics should not constrain analysis. To choose to do nothing is just as much a choice of policy as to choose a particular policy. Authors show that kosher welfare analysis precludes interpersonal judgments of welfare and abstains from making judgments about probabilities when there is disagreement. This excludes too many interesting cases. We know from Arrow and experience that societies don't have good ways of choosing between alternatives, but this doesn't mean we shouldn't make the best judgments possible... **blah, blah, blah.**

Market judgments of probabilities of are likely to be wrong

- People who buy land on the flood plain are likely to both underestimate the probability of a flood and the amount of mitigation that is required if a flood does occur – or to have high estimates that the government will bail them out.
- The flood plain is worth more to them than to more cautious souls.
- They are likely to be wrong.

Like winner's curse

- Wilson's model – potential bidders have one observation from sampling distribution and bid on that basis. The person with the highest observation will win the auction.
 - Should condition bid on knowledge that her bid is maximum from sample.
 - Instead condition on assumption that she has on observation of the mean.
 - “Winner” overestimates value

Generality

- Believe this insight generalizes.
- Didn't write down a detailed model
- Easy to do so and would have this feature.
- If neglect the probability and mitigation judgments then the variable along which people differ is in their estimate of the government rescue. Something of a self-fulfilling prophecy.

My hobby horse: income distribution

- Simple model of leaky bucket with income distribution:
- $X > Y$; V increasing and concave
- $W(X, Y) = V(X) + V(Y)$
- Leaky transfer
- $H(t) = V(X - t) + V(Y + \alpha t)$; $0 < \alpha < 1$
- Implies equality is not optimal; sometime best to do nothing.

Hobby horse II

- Can embed the simple neat Jaffe-Russell model in this framework.
- Makes likelihood of being able to say something without making interpersonal welfare comparisons and using subjective probabilities even less likely.

More hobby horse

- Is Feinberg 9/11 wrong?
- His model is standard in compensation for wrongful death etc.
- Model each state of nature is characterized by income distribution. Like equality – weak property.
- Fate gives you the right to change income distribution in a state -- why not make it as equal as you can?