Redistribution of Income
 Redistribution of Income Notes

- This is one way a market-based economy seeks to achieve more equity and security. They tax the population and give money (i.e. tax and transfer) to specific individuals and programs. This includes Social Security, Temporary Aid to Needy Families (Welfare), Food stamps, etc.
No economies are purely command or purely market.

All economies have some level of market and command.

All economies are said to be mixed economies.
What we will be covering is the different ways that the government is involved in a market economy.

In other words the traits of a mixed economy.

These are....
CATEGORIES OF GOVERNMENT INVOLVEMENT

REDISTRIBUTION OF INCOME
PROVIDING PUBLIC GOODS
PROTECTING PROPERTY RIGHTS
CORRECTING MARKET FAILURES (EXTERNALITIES)
Redistribution of Income

- Sometimes the government redistributes income.
- This means to tax people (generally higher incomes) in order to provide a benefit to defined group of people who need a benefit (generally lower income or those in need).
Examples of Redistribution Programs

- TANF
- Medicare
- Medicaid
- Housing benefits (ex. Section 8)
- Social Security
“Who are these programs meant to help?”

—Steven Eubanks
Redistribution programs try to address income inequality and poverty.
Income inequality occurs when higher income people earn a greater percentage of income than lower income people. In other words the rich get richer and the poor get poorer.

For example, the top 1% of earners earn about 40% of all income in the US.
Poverty is defined as not having enough material possessions to meet one's needs.

In the US, an individual making less than $15,180 is considered to be living in poverty.

For a family of 4 it's less than $31,380.
Figure 2.
Poverty Rates by Age: 1959 to 2001

Note: The data points represent the midpoints of the respective years. The latest recession began in March 2001. Data for people 18 to 64 and 65 and older are not available from 1960 to 1965.
POOR FAMILIES ARE MORE LIKELY TO EXPERIENCE:

- HOMELESSNESS
- DRUG DEPENDENCE
- HEALTH PROBLEMS
- ILLITERACY
- UNEMPLOYMENT
- LOW EDUCATIONAL ATTAINMENT

THEY ARE ALSO MORE LIKELY TO COMMIT CRIMES AND MORE LIKELY TO BE VICTIMS OF CRIMES.
Redistribution programs try to address this by taxing and providing a benefit to those who need it.

Have redistribution programs worked?

You will have to research to see if it's worked in your opinion.
PHILOSOPHIES BEHIND REDISTRIBUTION

UTILITARIANISM

- JOHN STUART MILL
- JEREMY BENTHAM
- DISTRIBUTION OF INCOME BASED AROUND IDEAS OF DIMINISHING MARGINAL BENEFIT (EXTRA DOLLAR EARNED PROVIDES LESS MARGINAL BENEFIT TO A WEALTHY INDIVIDUAL THAN TO A POORER INDIVIDUAL
- ROLE OF GOVERNMENT IS TO MAXIMIZE TOTAL SOCIETAL UTILITY
LIBERALISM

- JOHN RAWLS (1971)
- PEOPLE CAN'T AGREE ON WHAT IS JUST UNLESS POLICIES ARE DESIGNED BEHIND A "VEIL OF IGNORANCE"
- UNDER A "VEIL OF IGNORANCE" PEOPLE WOULD BE MOST CONCERNED WITH BEING AT THE BOTTOM
- DESIGN PROGRAMS TO MAXIMIZE THE UTILITY OF THE LEAST FORTUNATE PERSON (SOCIAL INSURANCE)
LIBERTARIANISM

- ROBERT NOZICK (1974)
- REJECTS THE IDEA OF SOCIETAL INCOME (ONLY INDIVIDUALS EARN INCOME)
- EMPHASIZE EQUALITY OF OPPORTUNITY OVER EQUALITY OF OUTCOME
- GOVERNMENTS ROLE IS TO PROTECT INDIVIDUAL RIGHTS SO PEOPLE MAY ACHIEVE