Discussion of "Efficiency, Insurance, and Redistribution Effects of Government Policies"

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  - changes in wedges are efficiency, including insurance.

The Coordinate System

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The efficiency part can then be refined:

$$\Delta W = R + E^{prod} + E^{goods} + E^{ins}.$$

My view of the Contribution

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2. Second key difference: Kaldor-Hicks values an allocation based on the utility that it provides, the authors value an allocation based on the real disposable income it generates
(Income-based redistribution)

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- Somewhat similar difference between their production efficiency and Debreu's Coefficient of resource utilization: Starts with $u_i(x_i)$.

Further Details

My reading of the procedure is as follows:

- Given $\bar{x}$ the mapping $\alpha \rightarrow_{\bar{x}} P(\alpha)$ is generated by the KT multipliers of the problem:

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Hence $\bar{x}$ also defines the distribution of disposable incomes via $P(\alpha)$.

Quantitative Lessons

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2. Public-debt reform (Aguiar et al., 2024): a robust Pareto improvement; welfare gains are mostly insurance:

$$82.8\% \text{ insurance}, \quad 16.8\% \text{ intertemp. smoothing}, \quad 0.4\% \text{ redistribution}.$$

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- Clear and Intuitive decomposition, based on transparent concepts, well known to macroeconomists
- Fiscal interpretation delivering decentralization with familiar public finance objects:

  - redistribution corresponds to net transfers,

  - production efficiency to producers wedges and waste,

  - misallocation to consumer tax wedges and marginal deadweight losses.

Comments and Question

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4. **In-kind policies:** public education or health, childcare, housing;

   How would you classify quality and targeting changes?
   Production efficiency and subsidies respectively; or something else?