

Resisting The Drift Away from Income Redistribution*

By

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I welcome Chico Ferreira’s attempt to identify the elements of consensus in the inequality literature and discourse over the past three decades.

I agree with him that inequality has risen in importance as an issue, and also that the patterns and trends of inequality are in fact more nuanced and open to empirical debate than might appear at first glance from the popular headlines (Kanbur, 2019; Kanbur, Wang and Zhang, 2021).

There are two areas which I believe he could have emphasized more. First, the general neglect of intra-household inequality in our headline numbers on inequality and poverty. I have argued in my writings, that this neglect leads to a significant understatement of inequality and poverty (of the order of 25 per cent), an overstatement of the growth elasticity of poverty reduction, and is furthermore crucial in policy discussions such as the distributional impact of minimum wages and the targeting of anti-poverty expenditures (Kanbur, 2018a). Second, I have argued elsewhere that the philosophical and operational implications of the evolution of inequality at the global level, with a decline in between-country inequality greater than the rise in within-country inequality, composed of also bears considerable exploration and reflection (Kanbur, 2019; Kanbur, 2018b; Kanbur and Sumner, 2012).

The focus of my commentary here, however, is an assessment of what I consider to be a major feature of the discourse of the last three decades, namely a drift away from directly redistributing income through taxes and transfers towards what has been termed “predistribution” in attempts to reduce the inequality of market incomes even before redistribution takes hold. Paradoxically, I see this consensus in Ferreira’s concluding paragraph on a lack of consensus:

“Even after we have succeeded in returning income tax rates to the levels of the 1960s, or in persuading voters that inheritance taxes are a good idea after all, how should we spend those resources to break the intergenerational transmission of disadvantage at the bottom of the distribution(s)? I see no consensus – and too little research – on that.”

In this summary of a lack of consensus, Ferreira is in effect reporting a consensus that has emerged, perhaps crept up on us somewhat unthinkingly. This is that direct and simple redistribution of income and wealth is not enough, or not anywhere near enough, to address what he earlier terms as “multiple, interrelated and mutually reinforcing inequalities.” This is a turn away from what might be termed the “social democratic consensus” of the first four post-war decades, that at the heart of any strategy for addressing inequalities, at its core and dominant, must be a direct and vigorous policy of income and wealth redistribution.

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The arguments of the last few decades have chipped away at this consensus, led by anti-egalitarian sentiment but also, I would argue, aided and abetted, perhaps unwittingly, by strands of egalitarian thinking as well. Incentive effects, multidimensionality, capability, equality of opportunity, pre-distribution, political economy, etc., are the terms that have led the move away from direct redistribution of market outcomes in income and wealth to addressing inequalities through other means and in other dimensions. These terms, separately or in combination, are underpinned by three types of arguments—that redistribution of income has technical and economic issues, that it can be challenged on moral philosophical grounds, and that political economy has turned against it in favor of other forms of intervention.

Before taking up each of these in turn let me stipulate the following. First, we are discussing here a continuum, not either/or. It is the drift towards one end of the spectrum that is the issue being discussed. Second, income redistribution refers not just to direct taxation but to the full gamut of tax and transfer regimes. It is the combine defect of all of these that is at issue. Third there are indeed incentive effects with income redistribution that should be taken into account.

Let us start then with the argument that redistributing income may not be the best way of, well, redistributing income. So even if redistributing income is the objective, it may be better to aim for a more equal distribution of education, for example. The technical and economic issues associated with income redistribution, and I include here redistribution through taxes and transfers, are well developed in economic analysis and well publicized in the policy discourse. The framework of the Nobel prize winning economic analysis of Mirrlees (1971) highlights the balance between incentive effects and redistribution in assessing the progressivity of taxation. Economists focus on incentive effects of progressive taxation have influenced policy and politicians. Atkinson (2015) highlights this by giving the example of the UK:

“These research findings were factored into the influential review of UK taxation carried out by the Institute for Fiscal Studies and chaired by Sir James Mirrlees. The conclusion of the Mirrlees review in turn influenced the UK Chancellor of the Exchequer, George Osborne, when he announced that the top income tax rate in the UK would be cut from 50 per cent to 45 percent beginning in 2013....” (pp. 184-185).

Atkinson went on to counter the arguments on technical grounds. But it is also worth noting that there is not a comparable assessment or discussion of incentive effects on the side of “redistributing education.” These effects may be smaller or greater. We do not know because such issues are not researched to the same extent and are not brought to the fore in the public discourse. The incentive effects of income redistribution “win” by default.

Further, the role of informational problems, and cultural factors in changing educational preferences of parents, are recognized, indeed they are emphasized by Ferreira in his review. But they are not brought into commensurate comparison with the informational and other issues associated with redistributing income which receive greater attention and focus in the policy discussion. Consider the following assessment from Ferreira:

“My reading is that there is a growing consensus on “pre-distribution” policies, but perhaps less so on re-distribution policies. Pre-distribution refers to public investments intended to enhance the

human capital accumulation of the least advantage--in part to make up for the greater private investments of better-off families..."

The irony in this statement needs to be appreciated. The reason for move from redistribution of income to pre-distribution of education, with its attendant difficulties of "getting inside the family" which Ferreira highlights, is to make up for inequality of income which is contributing to inequality of education. Why not just redistribute income? (Haaparanta et. al. 2022; Tuomala et. al. 2022)).

But now we come to the second strand of argument, that redistribution of income is not a legitimate normative target, at least not to the fullest extent. Income is the result of effort and choice and the portion of the inequality of this outcome which is not the result of inequality of "circumstance" or "opportunity" should not be a target for policy. The last four decades have seen the development of this argument, including by those from the egalitarian end of the spectrum. Marxist philosopher Gerry Cohen (1989) lauded Ronald Dworkin for helping egalitarianism by "incorporating within it the most powerful idea in the arsenal of the anti-egalitarian right: the idea of choice and responsibility." Roemer and Trannoy (2016), write that:

"In the welfarist tradition of social-choice theory, egalitarianism means equality of welfare or utility. Conservative critics of egalitarianism rightly protest that it is highly questionable that this kind of equality is ethically desirable, as it fails to hold persons responsible for their choices, or for their preferences..."

I, and many others, have criticized the opportunity perspective on conceptual, empirical and policy grounds (Kanbur and Wagstaff, 2015; Hufe, Kanbur and Peichl, 2022). This is not the occasion to rehearse these arguments (see for example Sypnowich, 2023a, and the accompanying commentaries in the Boston Review symposium). The point to make here is that, in my view, the steady march of the opportunity perspective also explains the turn away from income redistribution in the post-Washington Consensus consensus.

Finally, consider the third argument in favor of the drift away from income redistribution, that it finds favor with the population at large and thus with politicians. This argument from analysts like Fischer (2023) and Gordon (2023) is stated and then countered by Sypnowich (2023b) as follows:

"....Claude Fischer and to a lesser degree Leah Gordon, reflecting on the inhospitable American scene past and present, provide sobering counsel that a focus on outcomes could be political suicide. Given the popular appeal of ideas like merit, private property, and social mobility, it is only prudent for egalitarians to adopt modest goals and focus on equality of opportunity....In my view, if we heed the realists' advice, we risk capitulating to a grudging outlook that is unwilling to remedy disadvantage that, though ostensibly the result of free choices, is mired in unchosen and unjust social conditions."

It is not in fact entirely clear the extent to which and the precise sense in which the public does or does not support equality of outcomes. Hufe, Kanbur and Peichl (2022) argue that the evidence does support interventions to redress extreme outcomes like poverty. Kanbur and Levy (2022) argue that the social acceptability of tax and transfer schemes is a subtle and nuanced matter, depending on context and timing. But the fact remains that conceding the case for income redistribution on these grounds right at the start leaves egalitarians with less negotiating power in the rough and tumble of policy and political discourse.

Let me conclude by saying that the drift away from income redistribution identified by Chico Ferreira, which is definitely a part of the current consensus, needs to be challenged. I very much hope that it will not remain, even unthinkingly, as part of any new Consensus to replace the Washington Consensus.

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