
Discussion of
“The ideological and political roots
of American inequality”
by John ROEMER, YALE University

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Milano, February 4, 2011

A New Manifesto

f R
D B

- Researchers on income distribution of all countries unite ... in promoting ideology of (vertical) redistribution.
- Perhaps not as influential as the first Manifesto but certainly much nicer to read
- Contribution also to:
 - History of economic thought about markets
 - Epistemology: Economics is not a (hard) science

Pillars of the “Gini below 30” ideology

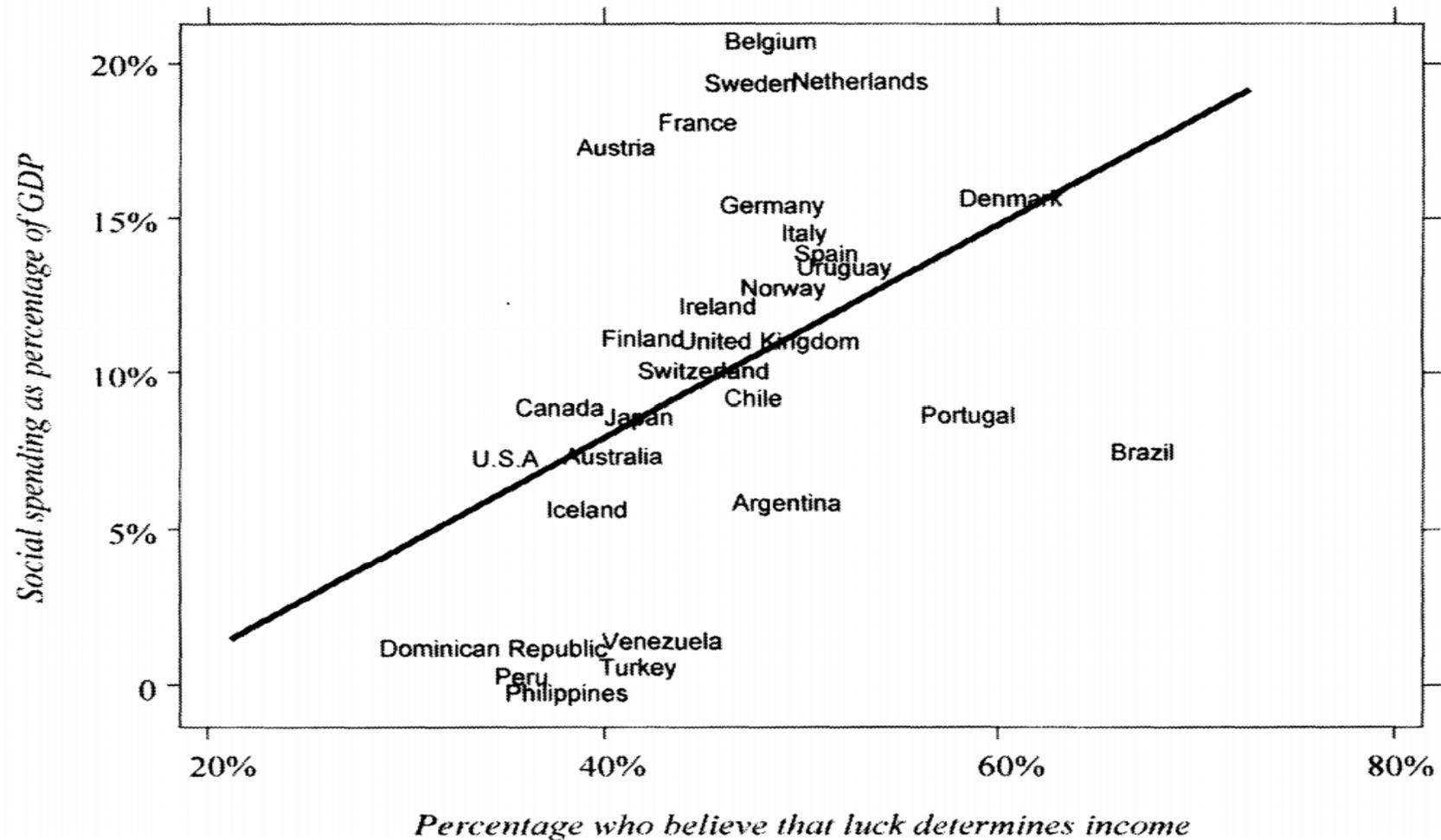
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1. *Equality of opportunities*. Equalize funding for children and compensate for genetic bad luck. **Not much controversial**
2. Do *super-rich* need all that money? We should heavily tax them. **Controversial**
3. Is the *State* really so *inefficient*? More public, less market. **Somewhat controversial**

Why we Need an Ideology

(redistributive policies/gdp %)

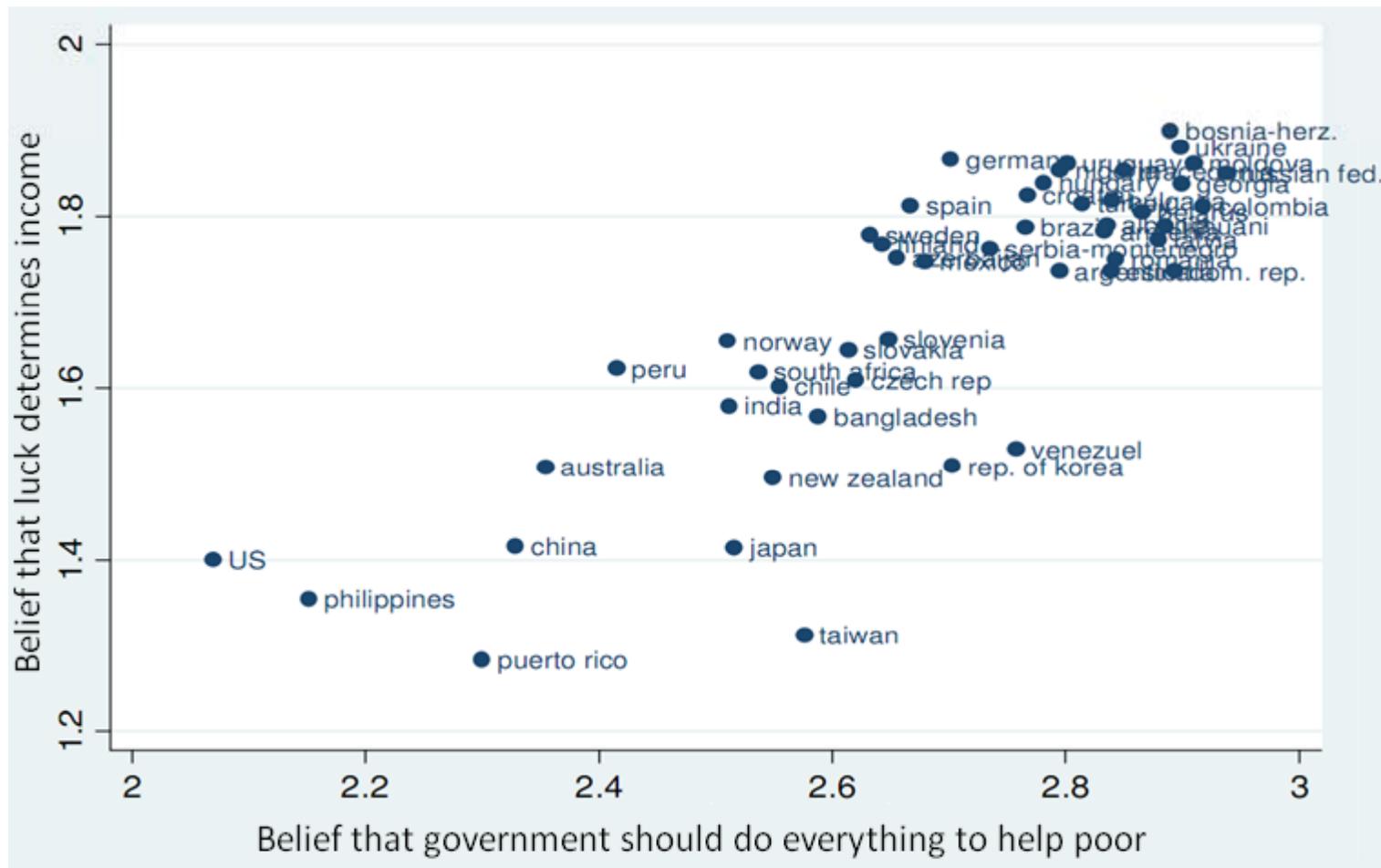
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Source: "Fighting Poverty in the US and Europe", Alesina and Glaeser, The Rodolfo DeBenedetti Lecture Series, 2004,

Beliefs and support to poverty relief ^f R D B

“Should governments do everything to improve the standard of living of all poor?” (WVS and GSS)



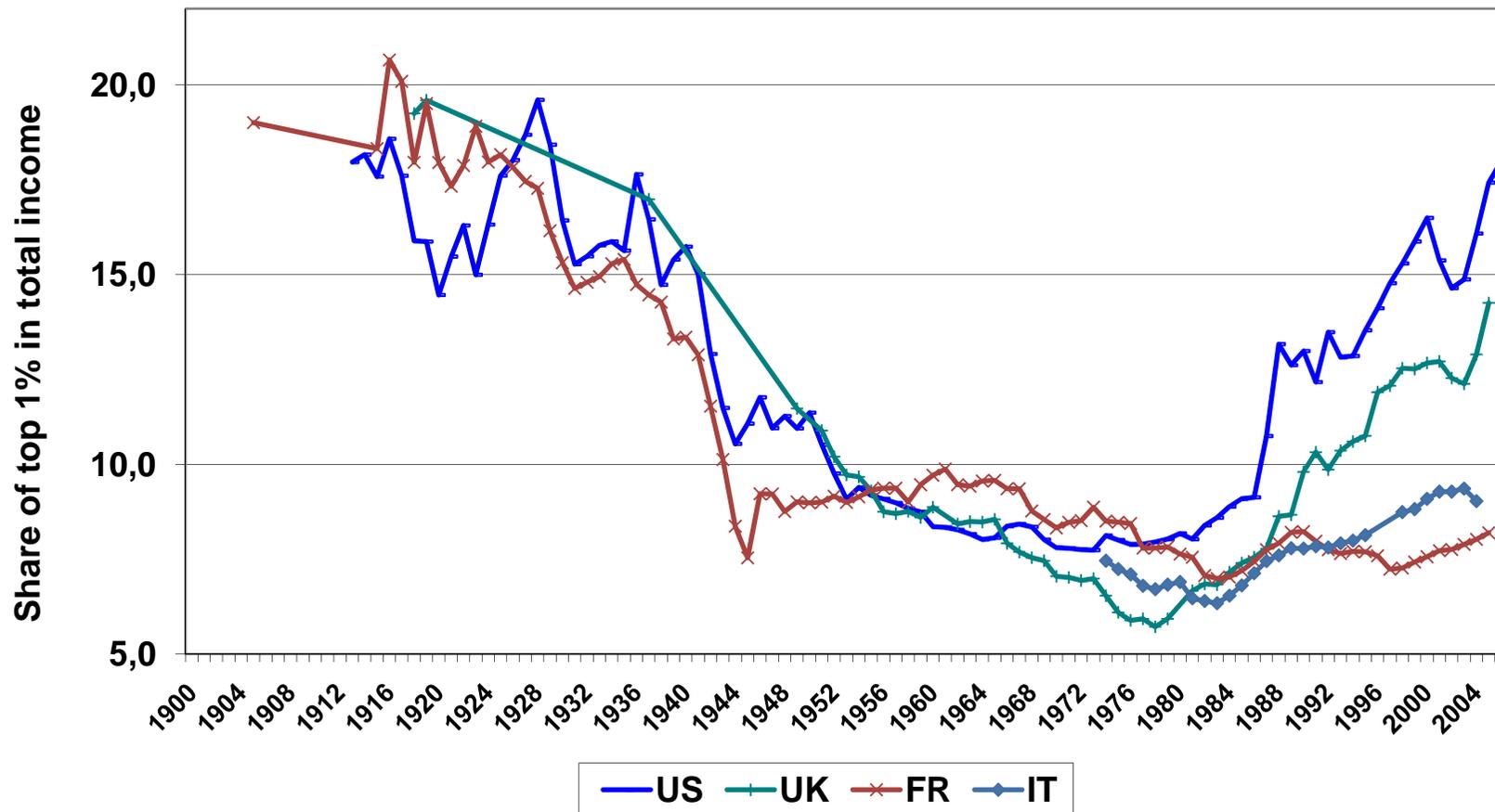
Comments

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- Heavily taxing the super-rich: what are we talking about ?
 - An omitted issue: cross-country fiscal spillovers and the jurisdiction over redistributive policies
 - Additional arguments for the Gini<30 movement drawn from the Great Recession
 - Barking up the wrong tree? Please do not take economists too seriously!

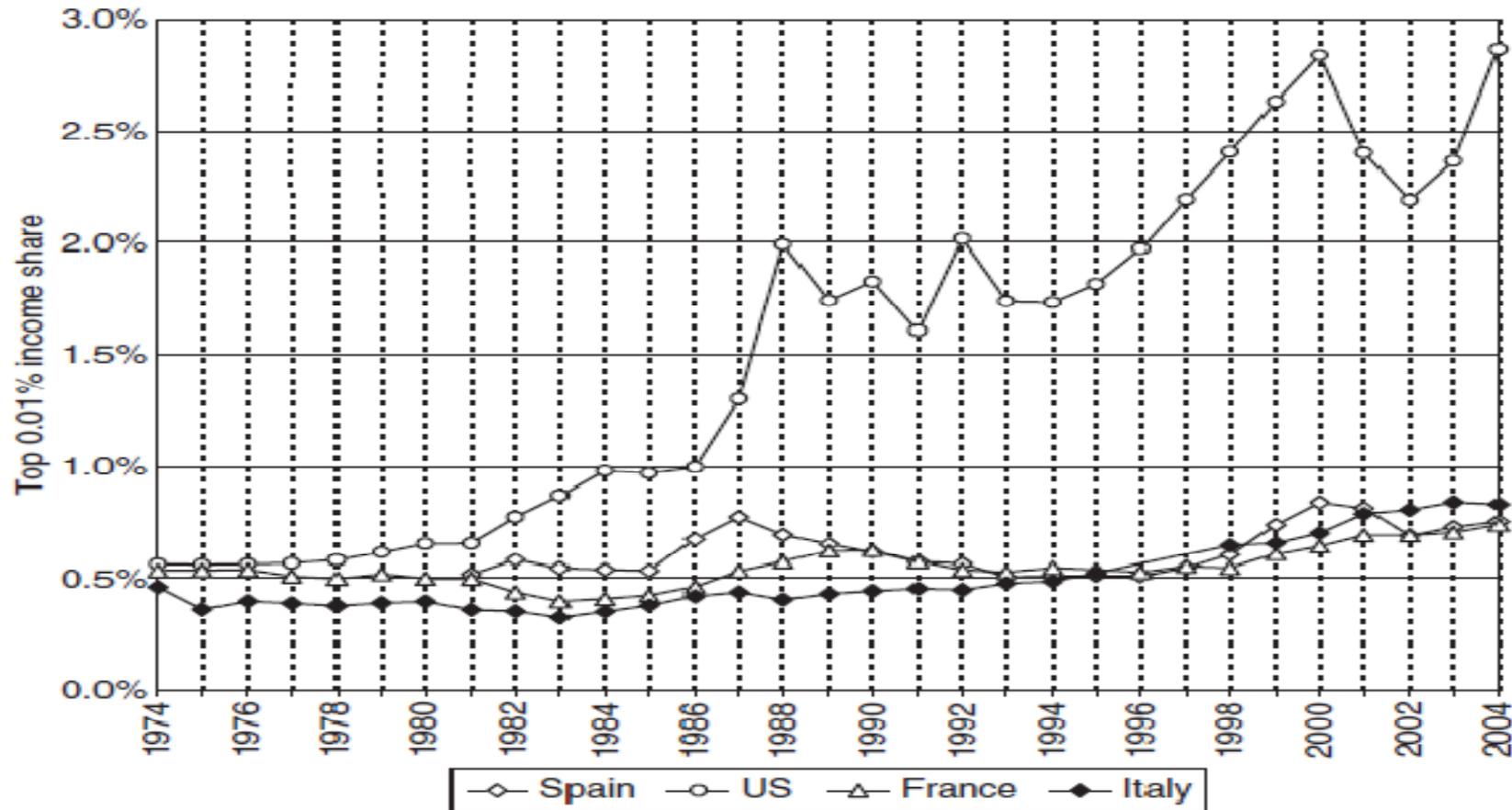
Inequality driven by very top incomes f **R** **D** **B**

Top 1% income shares, 1900-2005



The superstars (top 0,01%)

f R
D B



Alvaredo and Pisano in Atkinson (2009)

How much could we Tax Away? ^f **R** **D B**

TOP 0.01% INCOME IN THE US (2004)

Data from Tax Returns

Number of families	14,398
Average Gross Income (thousands of dollars)	18,113
Income Tax (millions of dollars)	90,499
Average Tax Rate	34.70%
Share over Total Tax Income	5.09%
As a % of GDP	0.63%

80% Average Tax Rate (France 1939)

Income Tax (millions of dollars)	208,642
Additional Tax Revenues (millions of dollars)	118,143
As a % of GDP	0.82%



Source: Saez and Picketty, 2007 (from IRS and Census Bureau)

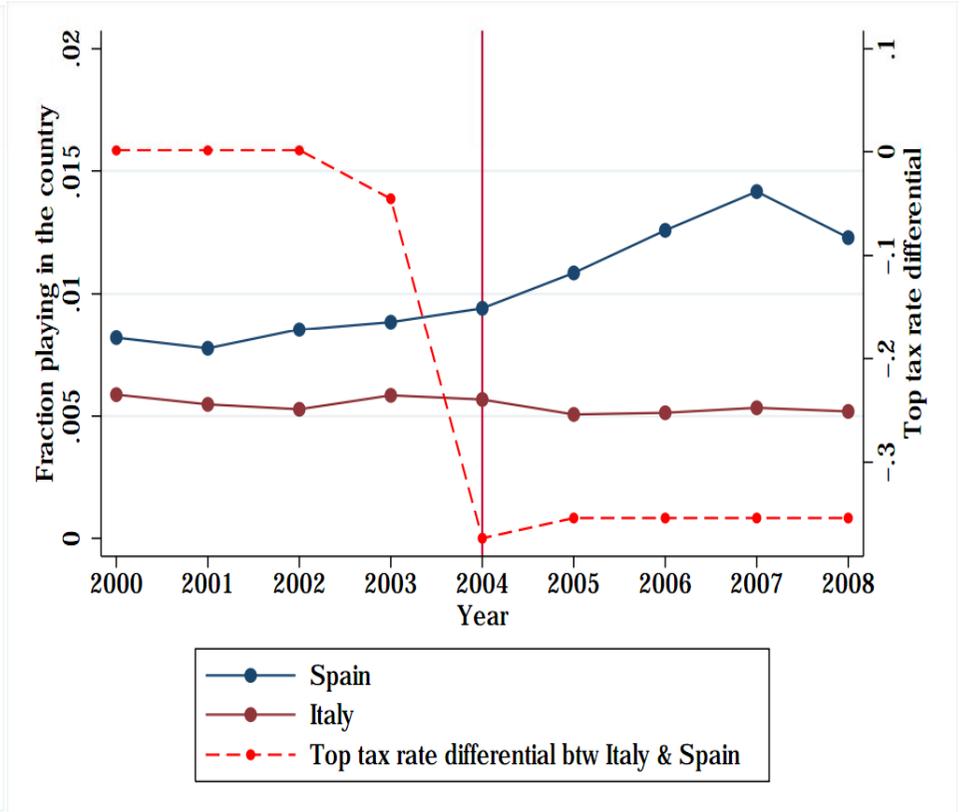
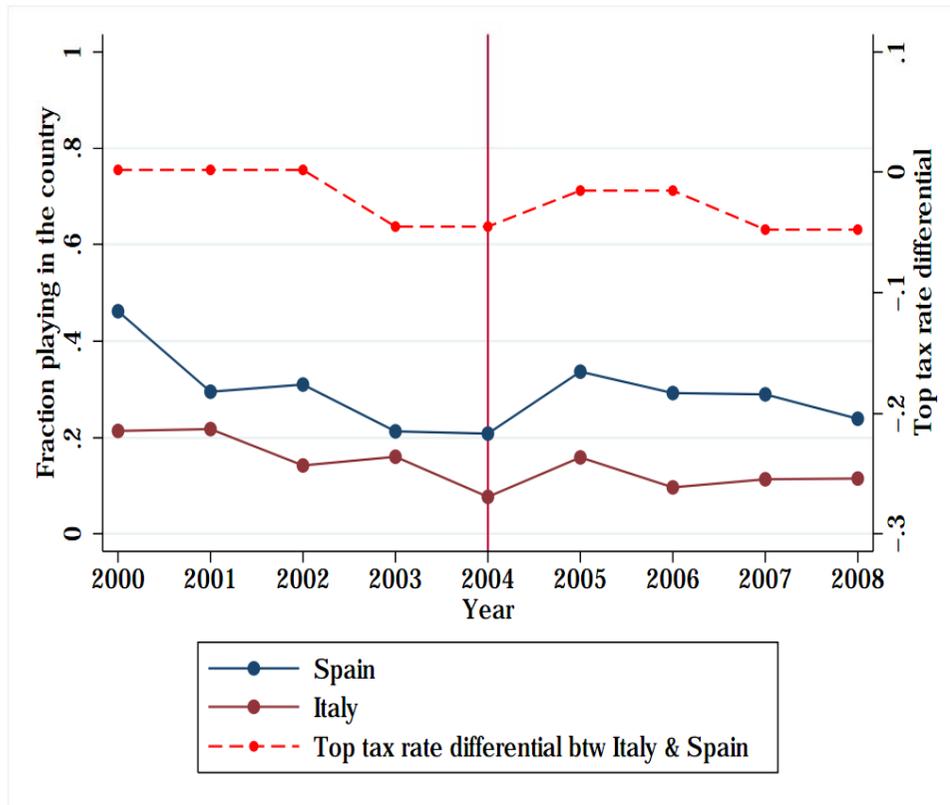
Is labour supply of superstars inelastic?

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Static elasticity

Not eligible

Eligible

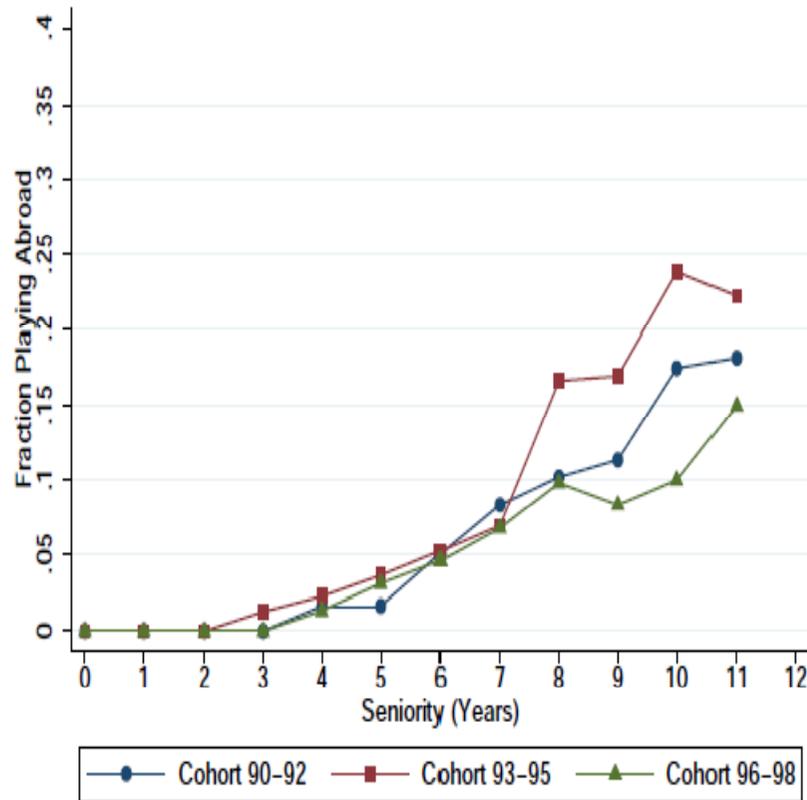


Source: "Taxation and international migration of superstars: Evidence from the European football market", Henrik Kleven, Camille Landais and Emmanuel Saez, NBER Working Paper 1654, 2010.

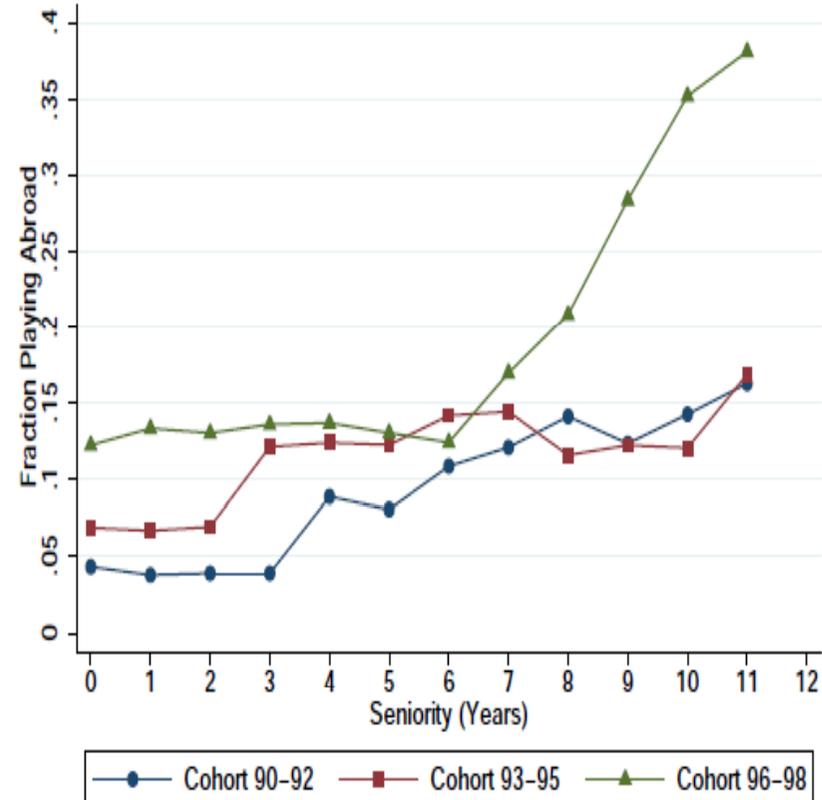
Effects of caps on earnings of soccer players

f R
D B

Greece



Portugal



Source: "Taxation and international migration of superstars: Evidence from the European football market", Henrik Kleven, Camille Landais and Emmanuel Saez, NBER Working Paper 1654, 2010.

Fiscal spillovers and migration

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- In Europe migrants increasingly perceived as “welfare shoppers”. 3 Europeans out of 4 believe that “unemployed migrants should be made to leave”.
- *Claus Hjort Frederiksen* (Danish Minister for Employment, 2006) : “If immigration from Third World Country were blocked, 75 per cents of the cuts necessary to maintain the welfare state would be unnecessary”
- *Heinz-Christian Strache* (leader of FPO, Austria, 2009): “Social housing, family allowances and child subsidies should become a citizen's right only and should not be given easily to immigrants”
- *Thilo Sarazzin* (former Berlin central banker, 2010): “Germany is digging its own grave by admitting waves of immigrants who are spongers and welfare cheats”
- *Kai Pontinen* (keyword in the 2009 campaign for European Parliament in Finland) “Stop to welfare bum immigrants”.

Decoupling Migration and Redistribution?

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- Skill selective migration policies: less “residual dependency” on welfare among skilled migrants
- Make welfare states more Bismarckian: entitlement based on past contributions
- Increase cross-country fiscal (and social policy) coordination to prevent a race to the bottom?

Comments

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Gini and quality of institutions

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- Lessons from the Great Recession: Central Bankers, Regulators and Governments captured by plutocracies
- “Deep imbalances such as inequality can create the political groundswell that can overcome any constraining institution. Countries can return their developing country status of their politics become imbalanced, no matter how developed their institutions.” (Raghu Rajan, Fault Lines, p.19)

Is “mainstream economics” the right target?

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- Governments do not redistribute more because median voters are against it rather than because economists (obsessed by incentives) state that taxation is distortionary
- Economists also point to efficiency costs of monopolies, to the distortions associated to the power of lobbies, to the benefits of migration and yet.....

Are we so Influential?

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- Our strength is credibility. As informed citizens we can lobby for and be politically involved but we should not mix up these dimensions and research
- We should always pursue descriptive accuracy rather than “figuring out how to bring evidence to bear against the ideology that foments inequality”
- Our priors should dictate the choice of research topics, while they should not affect the research outcomes

Summarizing

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- In addition to 1. ethics (Nozick), 2. trickle down of talents and 3. futility-distortionary taxation, there is also a fourth issue to be addressed by redistributive policies, notably the **jurisdiction in presence of cross-country fiscal spillovers**. Coordination problem very hard to address.
 - An important topic for future research is the quality of institutions when Gini is at 40
 - We should look at it, but without having already the answer

Final Remarks

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- Very well written and thought provoking paper.
- Valuable when lobbying in favour of policies reducing inequality and not only poverty.
- As long as it acknowledges that the enemy is not “mainstream economics”, but the ideology of income inequality.