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A New Decade for Social Changes
Redistribution Methods for Income Equality in the United States

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Abstract. Redistribution for income equality is a contentious issue, with advocates citing increased economic stability and skeptics fearing potential negative impacts on economic growth. The United States (U.S.) faces notably high income inequality compared to the Organisation for Economic Co-operation and Development (OECD) average, with wealth concentrated in the top brackets. This paper critically examines the existing U.S. redistribution methods, including the taxation system and welfare programs, highlighting challenges such as the lack of tax progressiveness in top brackets and limited redistribution compared to European counterparts. Based on this overview, the study evaluates alternative redistribution strategies, including wealth and business taxes. The paper compares theory with insights from pilot programs in other countries. Finally, the paper argues for a universal basic income (UBI) set at per-capita welfare spending, positing that this approach can empower individuals to escape poverty traps, enhance productivity, and introduce a choice mechanism for welfare consumption. Ultimately, this research seeks to propose the most effective and feasible income redistribution policies for the U.S. to bridge the income inequality gap.

Keywords. Income Redistribution, Income Inequality, Wealth Inequality, Redistribution, United States

1. Problem of Income Distribution

Fig. 1: Gini coefficient of household disposable income and gap between riches and poorest 10%, in 2016 (or nearest year) (Source: OECD Income Distribution Database, 2019)
Disproportionate ownership of factors of production gives rise to an unequal income distribution within market systems. This further translates into welfare discrepancies, approximated through measures like the Gini Coefficient, a quantifier of income or wealth disparities with values between 0 and 1 positively correlated with inequality. In the United States (U.S.), inequality is high, with a Gini score of 0.375 compared to an OECD average of 0.32 [1]. The wealth of the richest 130,000 families in the U.S. equals that of the bottom 117 million families combined [2]. This inequality motivates government intervention via redistribution policies to mitigate access to goods and services. Consequently, I will scrutinize the current framework of the U.S. taxation system and welfare programs. After examining several possible redistribution methods, I argue that a universal basic income (UBI) equaling per capita welfare spending will empower people to escape poverty traps by enabling improvements in productivity. Moreover, it improves welfare by introducing an individual choice mechanism for consuming welfare services or other types of goods and services.

2. U.S. Welfare and Tax System

In the U.S., income is redistributed through public cash assistance or in-kind benefits such as Social Security, Medicare, and the Supplemental Nutrition Assistance Program. These schemes are exponents of the welfare state, a framework of policies involving taxation that finances public services and inequality-reducing initiatives. Its size and subsequent redistribution levels in the U.S. are comparatively small. Illustratively, in Europe, most students’ tuition is free at public universities, whereas the U.S. expense of higher education is extreme [3]. In addition, while Germany’s unemployment insurance entails 60~67% of gross income or, in some cases, comprehensive coverage of essential living expenses for 1~2 years [4], the U.S. counterpart pays a national average of $387 for maximum 26 weeks [5].

Fig. 2: Estimated federal government receipts by source, fiscal year 2023 (Source: Pew Research Center, 2023)
[6] As outlined in Figure 2, finance sources are diverse. In the 2022 fiscal year, the government spent $1.19 trillion on over 80 welfare programs, representing approximately 20% of total federal spending [7]. While U.S. taxes are primarily progressive, state and local tax systems are rather regressive: typically over 50% higher for the lowest-income 20th percentile of taxpayers than for the wealthiest 1% [8]. The opportunity cost of directing income to the state motivates a progressive taxation approach, as it likely amounts to luxuries for high-households but necessities for low-income households.

![Fig. 3: Average effective state and local tax rates in the U.S. (Source: ITEP, 2018)](chart)

Effective tax rates are lower than statutory tax rates for everyone because they account for tax breaks. However, the U.S. effective state and local taxes seem regressive (see Figure 3). This is because tax loopholes like the stepped-up basis allow some higher-income taxpayers to avoid some taxation. Illustratively, earning stock instead of monetary income or off-shoring assets are both legal forms of tax avoidance. Conversely, lower-income people are disproportionately impacted by schemes like sales taxes. This renders effective tax rates lower than statutory taxes.
3. **Wealth Tax and Business Tax**

As government revenue is used to finance welfare initiatives, the size and distribution of the tax burden bears significant relevance on the overall effect of redistribution. For example, higher levels of equality can be achieved for a fixed level of welfare provision if top earners bear a larger proportion of its costs. Accordingly, an Ultra-Millionaire Tax scheme, currently not implemented, was proposed in 2021, which would raise an estimated $3.75 trillion in revenue over ten years (Warren, 2021). This tax imposes a 2% annual tax on individuals with net worth between $50 million and $1 billion and a 6% annual tax on billionaires. Similar strategies include targeting income associated with capital, which would mainly affect high earners. Following a tax regime akin to income for capital gains and dividends can generate an estimated $37.3 billion in revenue [9].

A more extreme version of an annual billionaire tax is banning billionaires and redistributing their net worth over a billion to the public. To establish how this policy will be implemented, take the case of a shareholder owning one-third of a company with a market capitalization of 30 billion. Their total equity amounts to 10 billion. The shareholder has a claim over profits and some rights over the decision-making process within the company. Assuming no liabilities, the stakeholder is a billionaire with a net worth of 10 billion. However, if the government chooses to ban billionaires, 9 billion would be taken away from the shareholder. Yet, obscurity remains
regarding how the 9 billion would be used. I will discuss two likely cases: the state becomes a stakeholder or makes the billionaire pay a wealth tax.

According to the first case, at the bare minimum, the government would gain a passive role in the company, gaining an extra source of income through an increase in the share’s valuation and dividends. It is also possible that the government takes an active role in the company as a shareholder by getting involved with operations management. The larger the percentage of shares one has, the greater power one has in the company’s operations. Thus, the government can continuously enlarge its power in different stocks, gaining a greater say in those companies and potentially advancing their values. Furthermore, the government can sell its shares to interested individuals. If this happens, however, the change in income and redistribution of wealth will be the same as that in the second scenario to be discussed below.

Still following the above example, in the second scenario, the billionaire would sell all the assets above the 1 billion mark, assuming the price is unaffected, amounting to 9 billion. This will be taxed at 100%, increasing government income. In both scenarios, the expansion of the state budget can be used to enhance economic equality. In this case, the government can use the extra funds for social welfare programs to bridge the wealth gap and create a fairer economic system where opportunities are more accessible to everyone. Such welfare programs include unemployment benefits, education, healthcare, and pension. Preparing and implementing all these programs requires funding, and the number of such programs we can execute depends on how big the government budget is, which depends on taxation. By taxing billionaires’ wealth more heavily, governments would have the means to invest in public goods and services that benefit society as a whole, potentially reducing inequality and improving overall well-being.

Although better public services do not have a direct effect on people’s economic status, they have indirect effects on the economy. On the one hand, public goods such as education make people more productive by equipping them with skills needed for employment. Other public spending projects like transportation, infrastructure, and healthcare can improve living standards and well-being. According to the CDC, U.S. employers lose about $225.8 billion annually due to worker illness and injury, causing productivity loss [10]. With the welfare of more accessible and affordable healthcare, economic productivity would increase. Social assistance can increase the purchasing power of the poor, leading to greater economic equality [11]. Similarly, enhancing public services can boost economic growth by allowing more people to enter the tertiary sector, which helps improve people’s well-being and contributes to economic growth [12].
In Figure 1, the blue line represents the budget constraint, delineating all the feasible sets of public goods. The orange curves indicate the contours of a social welfare function with the tangent point between them and the budget lines representing the highest affordable level of utility. A 100% wealth tax on billionaires increases government revenues significantly, shifting the budget constraint outwards. This implies higher attainable social welfare, as shown by the shift in the blue line.

Billionaire tax revenues are significant financial resources because they amount to a sizeable increase in government budgets available for a greater number of social programs. As the country has 724 billionaires [13] whose combined wealth equals $5 trillion [14], the taxes could increase welfare spending by $4.3 trillion, which is 3.6 times the current spending of $1.19 for over 80 programs (House Budget Committee, 2023). In a country like the U.S., a country that does not have universal healthcare coverage, such service would prevent income tax, which may be invasive for the population, if the government used the extra budget to expand healthcare access.

![Fig. 6: World life expectancy vs. health expenditure, 1970 to 2015 (Source: Our World in Data, 2017)](image)

Public welfare services reduce the effects of market failures, which amounts to an increase in economic efficiency. Illustratively, there is adverse selection in the U.S. private health insurance market, where applicants’ actual risk is substantially higher than the risk known by the insurance company. In the free market, this results in the underallocation of resources to health insurance, as firms reduce supply to protect themselves from having to cover high-risk individuals, leading to higher prices and unequal access. It can be seen from Figure 6 that U.S. citizens spend a lot but do not experience significantly better outcomes [15]. On the other hand, the government’s direct provision is better from a welfare perspective, as the price would reflect the society overall at average per-person cost. This average contribution is fairer and more efficient, as prices are lower, and access is universal.
However, diminishing billionaires’ stakes in private firms will limit their influence over business decisions. This is a significant point of consideration, as self-made billionaires are key individuals who have valuable perspectives and expertise. They have reached that status through great business leadership, and removing their control and straying away from their initial plans or what they envisioned may be detrimental. Many billionaires are founders or major shareholders of such companies, and their wealth and entrepreneurial spirit are intrinsically tied to the success of these businesses. Between 2003 and 2018, the equity performance of companies managed by billionaires was almost twice as strong as the market average, and they continuously outperformed companies not run by billionaires [16]. Removing their influence entirely may deprive society of their unique insights and discourage entrepreneurship and innovation, which could ultimately harm the nation’s Gross Domestic Product (GDP).

Table 3: Comparison of Performance and Other Financial Indicators of SOEs and POEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Two-way T-test</th>
<th>Wilcoxon Rank Sum Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SOE (1)</td>
<td>POE (2)</td>
</tr>
<tr>
<td>SIZE_SALES</td>
<td>10.908</td>
<td>12.297</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.048</td>
<td>0.108</td>
</tr>
<tr>
<td>SOLVENCY</td>
<td>41.402</td>
<td>36.615</td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>1.929</td>
<td>1.543</td>
</tr>
</tbody>
</table>

Note: This table presents the mean and median comparisons of performance and other firm characteristics between SOEs and POEs. The t-test and Wilcoxon rank sum test are deployed to examine the mean and median differences, respectively. ***, **, and *** denote significance at the 10%, 5%, and 1% levels.

Fig. 7: Comparison of Performance and Other Financial Indicators of State-Owned Enterprises and Private-Owned Enterprises (Source: Phi et al., 2019)

Additionally, some governments may be worse managers of the company shares. State-run firms show that states are not always efficient or effective in managing economic affairs. All countries have a certain level of corruption, as revealed by the Global Corruption Index in 2023, and state-run firms may be subject to political influences and incentives. These incentives may come in conflict with considerations of economic optimality. Thus, if the government becomes an active shareholder in a company’s share, it might decide to increase workers’ salaries. The reason the government might want to do this is that they want a higher chance of re-election in office; by increasing the salaries of companies’ workers, they would be more liked by the workers. After all, the government’s role is not maximizing the wealth of an individual or company.

In a case study of Brazil’s state-owned oil company Petrobras, the executives allegedly accepted bribes from the government, estimated by the Regional Superintendent of the Federal Police of Paraná State in 2015 at $2-13 billion, in return for granting contracts with inflated prices to construction firms [17]. This sum of money could have been used for productive investments like capital expenditures, thus raising economic efficiency. Instead, it went to the pockets of the executives. The bigger the government’s share is in the company, the more likely such corruption will occur because it would have a greater say, which is economically inefficient. State-run firms also often have a bureaucratic management structure with multiple layers of decision-making, which can lead to slower and less efficient decision-making processes. Unlike private firms that operate in competitive markets, which drive them to
innovate, state-run firms face less competition, which can reduce the pressure to improve productivity. In fact, State-Owned Enterprises (SOE) were found to be less economically efficient than their private-owned counterparts. As shown in Fig. 2, the average return on assets for private firms is 8.010, almost twice that for SOEs, which is 4.260 [18]. We want to avoid making productive assets susceptible to less efficient economic practices. Therefore, allowing governments to ban billionaires and become shareholders might not be a generally beneficial practice for the company.

However, dispersed leadership could increase the quality of decision-making. In scenario one, the government can sell its stakes to interested individuals. By spreading out control and wealth among a larger segment of the population, diverse perspectives and experiences would be incorporated into the decision-making process. This could result in more well-rounded, balanced, and inclusive policies that address the needs and concerns of a broader range of individuals rather than just the founder, Chief Executive Director (CEO), etc.

The debate over whether billionaires should be banned is a complex and multifaceted one. Shifting the tax burden towards higher incomes would increase the equity of the system. Furthermore, as the scheme can leverage large revenues from top wealth brackets, reducing gaps between effective and legislated taxation shown in Figure 4, it would also increase efficiency. Yet, it also risks limiting valuable perspectives and burdening the government with economic management. Moreover, the potential negative impact on high-value companies and capital investment should be carefully considered.

4. Direct Provision of Welfare / Universal Basic Income

The two ways in which levied taxes are redistributed are through provision of welfare as merit goods and direct transfers. Conjoining both is optimal for economic well-being but faces a significant budget constraint. Current schemes already cost a total of $1.19 trillion yearly, with an estimated extra $3 trillion required to finance expansions like Medicare for All [19]. The aforementioned alterations to the tax system are insufficient to enable the development of new welfare programs. Thus, expanding it would require an even larger expansion of taxes, which might result in negative side effects like tax avoidance, declining economic activity, and increase in unofficial transactions [20].

Although better public services do not directly affect people’s economic status, they have positive externalities on the economy. Illustratively, education and health increase workforce productivity. Conversely, another model of redistribution is directing welfare spending to unconditional cash transfers in the form of UBI, the feasibility of which I will now analyze.

4.1.1. Feasibility and Effectiveness.

The U.S. already spends approximately $9,000 per American household based on fiscal year 2022 data (House Budget Committee, 2023). This suggests the lack of necessary fiscal space to implement a UBI high enough to reach equality goals as an additional program. Thus, a re-work of the welfare framework is required. The government could terminate and privatize welfare schemes, hence turning the per capita spending into a direct transfer, which is as financially feasible as the current system. In the specific case of the U.S., the already-established provision of certain welfare sectors, such as healthcare and pensions through market mechanisms, suggests the existence of private actors capable of managing such systems. This implies a lower level of disturbance than a similar initiative in countries that offer larger social protection. Moreover, the aforementioned higher tax burden for top earners might not suffice in
establishing new programs but provides the opportunity to increase the size of the transfer, which, if implemented, already implies a 12% raise in average household income. Lastly, this sum would be entirely directed towards accessing goods and services on the market rather than bearing bureaucratic or operational government costs, as opposed to current systems.

In terms of effectiveness, I follow two commonly accepted but not uncontroversial economic assumptions. First, individual actors have the best knowledge of their utility. Second, different agents have unequal utilities associated with the same goods and services and thus welfare programs. Illustratively, subsidized transportation might not be useful for a remote worker who might prefer to spend more on education or healthcare. Direct UBI transfers are thus more effective than state provisions as they render people free to choose. Private firms operate more effectively because they are profit-driven to cut unnecessary spending. It also creates better labor circumstances. Because workers gain money through UBI, they would pursue more rewarding jobs. To attract workers, employers of unrewarding jobs would have to increase wages. Similarly, firms can choose and adapt when providing services, which is more robust than government programs.

However, there are equity concerns because UBI gives money to those who do not need it because they are financially stable. For more meaningful distribution, policies that ensure that effective taxes are fully progressive or higher taxes for high-income people should accompany UBI. Some may argue in favor of negative income tax, where earners below a level receive money from tax collected from the wealthy, as an alternative. However, this has issues of inefficiency, such as investigation costs and bureaucracy involved from the conditionality. For negative income tax, the government has to actively investigate people’s wealth and evaluate people’s eligibility. Therefore, negative income tax is less efficient than UBI in achieving the same goal of wealth equality.

4.1.2. Evaluation of Economic Impacts.
Theoretically, UBI reduces the incentive to work because of a guaranteed payment of UBI; in reality, productivity could increase in various ways. After paying for the costs of substitution from public to privatized welfare programs, workers could utilize the money to pursue entrepreneurship, get vocational training, or buy time-saving goods with utilities that increase their productivity, like a scooter that facilitates commute, or services that increase their chances for employment. This could also increase working hours for some people because they won't have to worry about losing unemployment benefits, thus escaping the poverty trap. Such effects were shown in a UBI pilot program in Uganda, where a group of researchers provided a group of young adults with $382 each and observed their use over four years. As per the study, the grant beneficiaries expended 11% on training skills, 52% on tools, and 13% on materials. Treatment resulted in 340 more hours of job training on average than controls. Four years later, the treatment group outperformed the control group in terms of capital stocks (by 57%), earnings (38%), and hours worked (17%) [21].
Figure 8 illustrates how the marginal utility of work increases after UBI is implemented. UBI shifts the initial constraint from $C_1$ to $C_2$. Because consumption and leisure are normal goods, workers are motivated to substitute consumption for leisure. However, if they use their additional income to acquire human or physical capital, they experience subsequent increases in productivity. This amounts to moving to a steeper constraint ($C_3$) which implies a higher opportunity cost of leisure. This incentivizes workers to increase their working hours, providing a higher labor supply at a greater productivity level and increasing the value of their contribution to the economy.

Similarly, in Finland’s two-year study of providing 2,000 unemployed citizens with a UBI of €560 per month, recipients’ employment increased by 6 days more than the comparison group on average [22]. They experienced significant increases in well-being in all dimensions,
as shown in Figure 9. Lower insecurity and stress encouraged the recipients to engage in unpaid work, training, or employment, which, in turn, stimulated greater optimism [23].

5. Conclusion

Fair redistribution is difficult, but through tax burdens that are effectively shifted towards top earners, other countries perform better at closing poverty gaps. A UBI equaling welfare spending per capita enables recipients to choose which programs they wish to access or spend the extra income on increasing productivity. Paired with tax progressiveness at higher wealth brackets, the system seems more effective in achieving equality than the current U.S. framework. However, equity concerns about giving money to those who do not need it should also be considered.

References


