



ELSEVIER

Available online at [www.sciencedirect.com](http://www.sciencedirect.com)

SCIENCE @ DIRECT®

European Economic Review 48 (2004) 805–826

EUROPEAN  
ECONOMIC  
REVIEW

[www.elsevier.com/locate/econbase](http://www.elsevier.com/locate/econbase)

# Income distribution and tax structure: Empirical test of the Meltzer–Richard hypothesis

Lars-Erik Borge, Jørn Rattsø\*

*Department of Economics, Norwegian University of Science and Technology,  
Dragvoll University Campus, Trondheim N-7491, Norway*

Received 17 March 2002; accepted 24 September 2003

---

## Abstract

The Meltzer–Richard hypothesis that more unequal income distribution will create a majority for more redistribution has generated much research, but little empirical support. The empirical literature has concentrated on cross-country studies and the size of the public sector, and the results broadly do not indicate more redistribution with more inequality. This analysis suggests that the hypothesis should be investigated in a more homogenous setting with comparable institutions and with an explicit decision about redistribution (here tax structure). New data on poll tax and property tax in decentralized government in Norway are exploited. We show how the multi-dimensional decision can be analyzed as majority rule assuming intermediate preferences. In the econometric analysis, instruments are used to account for endogeneity of income level and income distribution. The estimated model supports the understanding that more unequal income distribution implies a shift in the tax burden from poll tax to property taxes and thereby gives more redistribution.

© 2003 Elsevier B.V. All rights reserved.

*JEL classification:* H23; H71

*Keywords:* Income distribution; Tax structure

---

## 1. Introduction

When the median voter has less income than the mean, the typical income distribution observed, the decisive median voter will apply income taxation for redistribution. This is the key insight of Meltzer and Richard (1981). More uneven income distribution is associated with more redistribution, only held back by negative incentives to work and save. The setup assumes proportional income taxation financing lump sum

---

\* Corresponding author. Tel.: +47-73591934/1940; fax: +47-74596954.

*E-mail address:* [jorn.rattsso@svt.ntnu.no](mailto:jorn.rattsso@svt.ntnu.no) (J. Rattsø).

government transfers. The theory is based on an earlier work on optimal redistributive taxation by Romer (1975) and Roberts (1977), where the decisive voter chooses parameters of an income tax function. Cukierman and Meltzer (1991) continue this tradition and show conditions when marginal progressivity of the income tax is determined by the median voter.

Meltzer and Richard (1983) started up the empirical tests of the hypothesis in an analysis of US time series data of government spending. They conclude that the spending level is negatively related to the ratio of median to mean income. Later the Meltzer–Richard model is basically interpreted as a theory of government size and tested on cross-country data, but with little support. Government spending is assumed to concentrate on redistribution, and the income distribution is understood as the major determinant of government size. It is hard to get away from the observation that many countries with equal income distribution have large government spending, notably the Scandinavians, while many countries with unequal income distribution have smaller public sectors, as in many developing countries. Perotti (1996) analyzes a broad dataset including the marginal tax rate and different expenditure components, and he concludes that there is little evidence of a negative association between equality and fiscal variables. Bassett et al. (1999) reach the same conclusion with other definitions of transfers and spending. Milanovic (2000) has a more direct measure of redistribution, the income gain of different income groups from factor income to disposable income. His estimates support the hypothesis that countries with greater inequality redistribute more, but are less supportive of the median voter hypothesis. The spread of the income distribution, among the poor and among the middle class, is the background concern.

Alesina and Rodrik (1994) and Persson and Tabellini (1994) develop the redistribution model in a dynamic context and extend the empirical cross-country analyzes to economic growth. This approach implies two links, from income distribution to distortions with redistribution, and from distortions to economic growth. Again the evidence is mixed, and the link via distortions like taxation is not documented. Saint Paul and Verdier (1996) review some critical arguments.

The lack of strong evidence in favor of the Meltzer–Richard hypothesis has motivated the development of theoretical models with the opposite prediction, i.e. that more inequality leads to less redistribution. Persson (1995) and Benabou (2000) emphasize that redistribution may improve welfare and economic performance, in which case less inequality may increase the popular support for redistribution. Sinn (1996) questions whether the causality runs from inequality to redistribution or the other way around. The argument is that redistributive programs involve social insurance that stimulates risk taking and moral hazard effects, which increases the pre-tax inequalities.

The Meltzer–Richard hypothesis may stand a better chance in more homogenous political systems, and with a sharper focus on redistributive instruments. Decentralized government is a potentially interesting source of information about politics and distribution. Alesina et al. (2000) exploit this type of data in a recent study of US cities, and find a positive relationship between inequality and public employment. On the other hand, Rodriguez (1999) find no association between distributional skewness and welfare spending in the US States. It seems to us productive to get back to the relationship between income distribution and taxation as a basis of evaluating redistributive

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات