Endogenous Distribution, Politics, and Growth

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Abstract:

This paper generalizes the analysis of distributive conflict, politics, and growth developed by by Alesina-Rodrik (1994). We constructa heterogenous-agent framework in which both growth and the distribution of wealth are endogenous. Due to adjustments in the distribution of wealth, the composition of factor ownership across households equalizes in the long run. This implies that the optimal tax rate is the same for all households and equals the growth maximizing tax rate. Hence, there is no distributive conflict in the long run. When the model is augmented with a non-political redistributive policy, the model predicts that long run growth exhibits a negative monotonic relationship with respect to this policy, i.e., a redistributive policy that leads to a more equitable wealth distribution unambiguously reduces growth in the long run.