

PROPOSAL: RESEARCH ON INEQUALITY AND RELATED TOPICS

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The rising level of income inequality in the United States and in other countries may be the most important economic policy issue of our times. If the trend continues, great inequality might become intolerable. And yet there are few proposals that might really deal with this problem.

I have been working with Leonard Burman, who is former Undersecretary of Treasury for Tax Policy Analysis and is now director of the Tax Policy Center at the Urban Institute, Washington, to devise some changes in the tax system to prevent significant increases in inequality. We are proposing indexing the income tax system to inequality—specifying in advance that taxes on higher incomes will be raised automatically if inequality gets worse.

This proposal is rather radical, and we have been thinking both about how to sell the idea and about how the proposal might be modified to become more realistic. This summer, with a research assistant, I hope to explore various broader issues that relate to this proposal and, more generally, to society's response to rising inequality.

One topic I hope a research assistant could find out for me would be how other government initiatives to deal with inequality through tax and transfer system changes have fared in the longer run. For example, Canada's equalization program, instituted with the Constitution Act of 1982, has apparently been a success for 25 years. Other such programs have been created in Australia, Germany, and perhaps other countries, but I know little about them.

I also want to survey the vast literature about inequality, not just in economics, but in psychology, political science, sociology, etc., to try to get broader insights. I will need a research assistant who is willing to read a lot, make phone calls to get facts, and meet with me weekly to discuss this reading. I hope the assistant will be willing to adjust the reading from week to week in response to our discussion, so that the study will be productively focuses.

It is possible that I may ask the assistant to do some data work, or to find data and process it somewhat. But I think that the work will be more likely broad fact finding and literature review.

I may also ask the research assistant to move to some other topics in the general field of behavioral economics. I have a broader interest in behavioral economics, and I might ask the research assistant to consider also topics that are only weakly connected to the basic theme of inequality.

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