GOVERNMENT AND INCOME REDISTRIBUTION: RADICAL EXPLANATIONS AND ORTHODOX EVIDENCE

Carol M. and Kent W. Olson, Oklahoma State University

BACKGROUND

According to Schumpeter, "Public finances are one of the best starting points for an investigation of society. . We may surely speak of a special field: *fiscal sociology*, of which much may be expected." (Schumpeter, 1954 7). Unfortunately, there is scant sociological literature on the aggregate economic dimensions of society. We will focus on fiscal sociology relating to government spending and taxes. We have two goals: 1) to present a summary of conventional views on the role of government and its effects in the distribution of aggregate income; and 2) to argue that in a mature capitalist society, there are structural barriers such that government intervention cannot produce a significant redistribution of income.

The conventional view on the government role in income distribution is supported by various hypotheses that the rise in government budgetary and other activities should produce a change in income distribution (Kusnets, 1955; Musgrave, 1976; Boulding, 1972). However, the only fairly consistent time-series data on the size of distribution of income in the United States suggest that aggregate income distribution has not changed significantly since World War II, as shown in Table 1 (U.S. Census Bureau, 1976). The lowest 1/5 of the population received 5.1 percent of the total income in 1947 and 5.4 percent in 1974. Likewise, the top 1/5 received 43.3 percent of the total income in 1974 and 41.0 percent in 1974. During this same period, the size of government expenditures rose from 17.6 percent of the gross national product in 1940 to 31.5 percent by 1973 (Musgrave, 1976 133).

CRITICS OF DISTRIBUTION MEASURES

Criticisms of income-distribution measures include the basic income concept, the income unit, the accounting period and the methodology. Income includes money wages and salaries, net income from self-employment, money income from property, and private sources like pensions, alimony, and periodic income, and government cash-transfer income (U.S. Census Bureau, 1976). It excludes in-kind transfers, cash or in-kind work perquisites, and changes in the makeup of income units and for variation in well-being over the life cycle of such units. It excludes the effects of all but cash transfers.

A major study estimates the impact of all taxes and expenditures, and indicates that a post-fisc distribution of income during 1950, 1961, 1970, and 1973 did not show any discernible trend toward equalization despite the growth in the government budget (Reynolds & Smolensky, 1977). The authors attribute this to a tax system which was becoming less progressive and a cash-transfer system which was becoming more progressive over time as shown in Table 2.

Plotnik (1977) concludes that government cash transfers may be less equalizing than previously thought. He shows that the standard procedures overstate the equalizing impact of cash transfers by 22 to 57 percent because their provision tends to reduce labor supply and pre-fisc earnings more among low-income and among higher-income groups. If similar results pertain to government in-kind transfers, the redistributive effect is further reduced. Also, some components of the transfer system such as welfare and in-kind transfers are widely believed to promote family dissolution, increasing the number of households with female heads (Taussig, 1976). This would have an unequalizing effect on income distribution by family.

The inclusion of taxes has little equalizing effect on income distribution over time (Browning, 1976; Smolensky, 1977; Pechman & Okner, 1974). Under the most progressive set of assumptions, taxes reduce inequality by less than 5 percent in terms of Gini coefficients. Under the least progressive assumptions, inequality is reduced only .25 percent (Pechman, 1974 64).

TABLE 1: FAMILY SHARES IN UNITED STATES PERSONAL INCOME
(Percent by income level)

	Family Income Level					
Time Period	Lowest Fifth	Second Fifth	Third Fifth	Fourth Fifth	Highest Fifth	Top Five Percent
1947	5.1	11.8	16.7	23.2	43.3	17.5
1948	5.0	12.1	17.2	23.2	42.5	17.1
1949	4.5	11.9	17.3	23.5	42.8	16.9
1950	4.5	11.9	17.4	23.6	42.7	17.3
1951	4.9	12.5	17.6	23.3	41.8	16.9
1970	5.4	12.2	17.6	23.8	40.9	15.6
1971	5.5	12.0	17.6	23.8	41.1	15.7
1972	5.4	11.9	17.5	23.9	41.4	15.9
1973	5.5	11.9	17.5	24.0	41.1	15.5
1974	5.4	12.0	17.6	24.1	41.0	15.3
1974-51 Mean	4.8	12.0	17.2	23.4	42.6	17.1
1970-74 Mean	5.4	12.0	17.2	23.4	42.6	17.1

(U.S. Census Bureau, 1976)

TABLE 2: PERCENTAGE SHARE OF POST-FISC HOUSEHOLD INCOME

Year	Lowest 20%	Middle 60%	Highest 20%
1950	6.4	53.7	39.9
1961	6.4	53.8	39.8
1971	6.7	54.2	39.1

(Pfaff & Pfaff, 1972 198)

TAX-PREFERENCE EFFECTS

Omitted from these studies is the effect of tax preferences. There are subsidy payments to preferred taxpayers through special provisions in the tax code. This government subsidy, amounting to $136.5 billion in 1979, should be judged differently, according to critics. They say that if the tax code contains preferences which violate the norms of social equity, they actually move us away from a socially acceptable distribution of income.

The orthodox evidence indicates a constant income distribution over time, but does not explain why it persists despite government intervention. Federal government expenditures for health, education, welfare and income security increased from 28 to 51 percent of total outlays between 1960 and 1978 alone (U.S. Census Bureau, 1978). During this period the alleviation of poverty became an announced goal of the Federal Government. Presumably this shift in budget priority and professed goals should produce a trend toward greater equality in income distribution.

RADICAL THEORY

Radical social scientists explain this phenomenon by the role of the State in a capitalist society. Based on the Marxian class theory of exploitation, the State is regarded as an instrument serving the interests of the capitalist class. Conventional theorists concentrate on the manifest functions of the budget for income distribution. But if we probe more deeply into the latent functions of government fiscal operations, a meaningful explanation for the static and unchanging distribution of income emerges.

Radicals say that capitalists strive to accumulate wealth. This accumulation succeeds better if it can be financed by the total society. Because large accumulations of wealth generate influence on political and ideological processes, capitalists can use the State as an instrument to finance an important part of capital stock for the enrichment of the capitalist class. The process is camouflaged by an ideology that economic rewards are based on thrift, foresight, and entrepreneurship (Solo, 1974; Bachrack, 1967; Feagin, 1975).

As accumulation continues, wealth and power is concentrated and a portion of the population is impoverished. To avoid open conflict, the disadvantaged groups must be given income in addition to what they can earn in factor markets. It benefits the capitalist class to socialize this transfer. By this means the government in capitalist society fosters both capital accumulation and social harmony. The State must maintain conditions favorable to capital accumulation. A democratic government that uses overt coercion to promote the interests of one class loses its legitimacy by undermining its own popular support. But the capitalist state which does not support capital accumulation dries up its own source of power--namely the surplus of the economy and the taxes drawn from this surplus. To preserve this system, government budgetary and economic policies serve both functions. Government activities presumably designed to maintain social harmony equalize income distribution operate indirectly to sustain inequality of income.

STATE SOCIAL EXPENDITURES

Social expenditures are divided in two categories: 1) social capital; and 2) social expenses (O'Connor, 1973). They are called *social* because they are financed by society. Virtually all state expenditures serve the capital accumulation and the social-harmony functions at the same time. Despite their complex social character, we can determine the primary politico-economic forces served by a budgetary decision, and thus establish its main purpose.

Social capital directly promotes the accumulation function. It is composed of social investments and social consumption expenditures. It contributes to capitalists' incomes either by improving the productivity of the labor force or by providing resources that private firms would otherwise finance directly. Examples of social investment expenditures include roads, industrial-complex projects subsidized by government, and investments in human capital like education, research, and manpower training. Such expenditures increase productivity by adding to the stocks of human and physical capital, and by improving technology. They help industry to accumulate capital and reap profits. But the costs are borne by taxpayers.

SOCIAL CONSUMPTION

There are two types of social-consumption expenditures: 1) goods and services consumed collectively, like schools, and medical and recreational facilities; and 2) social insurance for economic security in the form of workman's compensation, social security, and unemployment insurance. Conscious manipulation of the first type of expenditure becomes a tool to expand or protect privilege for favored groups. This can be explained in terms of welfare economics and its key concepts of externalities, spillovers, and public goods, which refer to services which members of a social group can consume. Affluent families gravitate to communities that provide high-quality social services financed by government expenditures. Because these neighborhoods have a large wealth base, quality services can be provided through a lower tax rate than is possible in poorer communities. Several mechanisms are used for this objective, such as manipulation of public budgets for municipal projects, zoning restrictions, property tax breaks, and control of housing structures and rent. Thus a few persons can control the development of a community.

Such expenditures supposedly serve the social-harmony function. But their latent effect is to aid capital accumulation, because government absorbs costs which would otherwise come out of profits. Without them, capitalists would face higher wage demands. O'Connor (1973) contends that the primary purpose of social insurance is to create a sense of economic security among workers, and thus raise morale and reinforce discipline. This fosters harmonious management-labor relations required for capital accumulation and growth of production. In this perspective, social insurance is income insurance not for workers but for capitalists.

SOCIAL EXPENSES

Social expenses in the United States support programs to maintain social stability at home and wherever United States' interests are presumed to be at stake throughout the world. They do not contribute directly to capital accumulation, but are needed to maintain it. The major social expenses are the defense budget and the welfare system. Radicals argue that the dual problem of surplus capital and labor have required the development of a welfare-warfare state. Military expenditures reduce the growing surplus by increasing aggregate demand and by protecting foreign investments of United States industries. Welfare and other income supplements represent the main strategy to deal directly with surplus labor. Both are conditioned by the needs of monopoly capital and of production in the private sector. The welfare state tends to expand because the growing surplus population has little purchasing power of its own. The warfare state expands because the growing surplus savings and labor cannot be employed at home. To maintain a level of aggregate demand requires expanding markets and investments abroad and subsidized unemployment at home.

LATENT EFFECTS

The latent effect on capital accumulation prompted by social expenses encourages a static income distribution. The military market is important to capitalism's future (Reich & Finkelhor, 1976). Fluctuation in military spending influences the cyclical pattern of the economy. Military spending is unique in its ability to expand without damaging the basic output of the private sector, since it does not compete with that sector. Military spending absorbs a significant part of the surplus labor supply. With new technology, spending for weaponry is always possible, and weapons systems are often obsolete before production is complete. Machinery for armaments is specific to particular weapons. As government subsidizes corporations by defense contracts, the process is highly profitable and continues indefinitely. Defense contractors earned 17.5 percent on investments from 1962 to 1965, compared to a 10.6 percent profit rate in the private sector (Wiedenbuam, 1965). The General Accounting Office disclosed an average profit rate of 24.8 percent for military contractors from 1966 to 1969 (Sherman, 1976). These firms made added profits by using complex sub-contracting devices to subsidiaries, unauthorized use of government property, and acquiring patents on research paid for by the government.

Radicals argue that such profiteering is no aberration. It performs the latent function of adding to capital accumulation by providing a cushion to avoid economic stagnation and crisis. The radical view presupposes that unemployment and inflation is the usual state of capitalism, and that fiscal measures required to solve these problems cannot be taken by a capitalist government because powerful vested interests oppose it. Thus, welfare programs designed to benefit the poor never threaten the structure of inequality.

WELFARE PROGRAMS

Welfare programs serve both the capital accumulation and social-harmony functions. By redistributing income from the rich to the poor, their purchasing power is stabilized near the subsistence level. This expands the domestic market and increases aggregate demand. The key to explain relief programs lies in what they do for the larger economic and political order (Pivan & Cloward, 1971). They bolster a sagging economy and at the same pacify insurgents. Historical evidence suggests that welfare benefits are expanded during outbreaks of civil disorder produced by mass unemployment, and then are reduced when political stability is restored.

There is no rationale in capitalist ideology to justify massive social spending to benefit the poor directly. It is unfeasible because it interferes with the operations of the capitalist system by putting the government in direct competition with the private sector. Capitalist ideology has vigorously promoted the notion that government must not interfere with the incentive to work.

CONCLUSION

We have presented the radical view of the role of government expenditures to illustrate that redistribution of income by government activities cannot equalize income over time in a modern capitalist society. This suggests that the State might intervene directly in various ways to prevent the erosion of the privileges and hegemony of private capital. Evidence on the post-fisc distribution of income given by orthodox economists does not appear to contradict the radical theory even though the orthodox evidence is based on value judgments on the purpose of government expenditure that would bias their results toward denial of radical theory. Radicals assume that some redistribution will take place in the interests of maintaining social harmony. But if the capitalists are truly successful in using the State for socializing their costs, there can be no discernible trend toward post-fisc equalization of income over time. Radical methodology insists on at least two adjustments to orthodox analysis of the effect of the fisc on income distribution: 1) an allocation of expenditures based on their theory of the State; 2) a determination of the impact of government subsidies, such as tax preferences and price supports.

In the radical paradigm, some part of each government expenditure is for the benefit of the capitalist class and must be so allocated. Some part of highway expense should be allocated to the auto and petroleum industry, some part of unemployment benefits to owners of low-wage, cyclically sensitive firms who benefit from subsidy to labor, some part of manpower training to owners of firms which enjoy lower training costs as a consequence, and some part of education expenditures to beneficiaries of the class division of labor.

Adjustments on this basis have been made by Peppard (1978) for the State of Michigan. This study shows even smaller equalization trends by government intervention than is reflected by orthodox methodology. We suggest that orthodox methodology is also biased in implicit judgments of government intent. It is less controversial only because it reflects the status quo. There is no denying that there will be different post-fisc distributions of income associated with different sets of preferences. There is presently no unanimously endorsed social norm regarding the allocation of taxes. It is precisely because there is none that alternative norms should be openly debated.

Radical theory cannot be empirically tested at this stage of its development. But it is hard to escape the conclusion that the radical methodological points are valid. Facts about governments' effects on income distribution are not neutral. If they are interpreted radically, post-fisc income will be less equally distributed year by year than the current orthodox studies show. Thus, the *prima facie* case for the radical theory presents a challenge to produce a more complete theory. It should also serve as a clear signal to orthodox social scientists that the radical view is a viable alternative to the orthodox explanations.

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(Bankston et al, from p 120)

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