

Income Redistribution Strategies: Economic Impacts and Effectiveness

Neel Mathur

Hunter College High School, 71 East 94 St, New York, NY, USA; neel.mathur07@gmail.com
Mentor: Dr. Harry Begg

ABSTRACT: Economic inequality has surged to the forefront of U.S. policy debates, driven by rising income and wealth gaps. This paper examines strategies to foster economic growth and reduce income inequality, drawing insights from experiences in Scandinavia, Europe, and Singapore. It assesses the effectiveness of education, tax, and welfare policies in promoting growth, evaluating their costs, benefits, and ease of implementation. The paper also delves into proposed wealth tax plans and their potential to address inequality. Universal Basic Income (UBI) is also examined as a response to workforce challenges, discussing its benefits, costs, and effects on labor supply. Assessing the evidence for each, the paper recommends education reforms, such as doubling the Pell Grants program and implementing conditional tax transfers to low-income families to support education for underprivileged children. Universal basic income shows high potential for reducing inequality, but its implementation is not feasible due to the substantial costs involved. Moreover, more research is needed on wealth taxes to gauge their effects on innovation and entrepreneurship before they can be considered seriously for implementation.

KEYWORDS: Economics; Redistribution; Inequality; Public Policies; Taxation.

■ Introduction

Economic inequality has taken center stage in the policy debate in the United States.¹ Income and wealth inequality have increased dramatically over the last decades. Inequality may continue to grow due to globalization effects and the development of Artificial Intelligence, which may further disrupt the workplace significantly.² According to the latest Federal Reserve data, the top 1% of Americans have a combined net worth of \$34.2 trillion (or 30.4% of all household wealth in the U.S.). In comparison, the bottom 50% of the population, holds just \$2.1 trillion combined (or 1.9% of all wealth). In contrast to 1989, the statistics reveal a stark reality: over the past three decades, the wealth of the top 10% of U.S. households has surged by nearly ten percentage points, from less than 61% to 69% of all wealth, while the share held by the bottom 50% has dwindled, dropping from 3.6% to a mere 1.9%.

The repercussions of the 2008 Global Financial Crisis, the slow and uneven recovery that ensued, and the more recent economic shock caused by the COVID-19 pandemic have exacerbated these trends and compelled policymakers to respond. The ramifications of inequality are manifold. For example, there is evidence that high inequality exacerbated the COVID-19 pandemic's impact in the US relative to European nations and further deepened societal divisions. Scholars and political figures alike argue that addressing economic inequality in the United States is a political and moral obligation demanding urgent attention. Proponents of income redistribution contend that redistributive policies will increase financial stability and give more opportunities to the less wealthy. Others are more skeptical and believe it could negatively affect economic growth. Current redistributive policy options include taxation, welfare, enhanced public service provision, and other policies.

This paper identifies measures to promote higher income equality and economic growth using insights from Scandinavia, Europe, and Singapore. We assess education, tax, and welfare policies for their costs, benefits, and ease of implementation. We recognize education as a crucial tool for reducing income inequality by providing individuals with skills and opportunities. However, rising tuition costs have led to a surge in student loan reliance, resulting in a staggering \$1.7 trillion debt burden for U.S. borrowers. This figure has prompted debate over government intervention to forgive student loan debt, exemplified by President Biden's ambitious relief plan (subsequently overturned by the Supreme Court). There are higher education costs compared to other nations. I examine three programs to make education more equity-enhancing – (i) an expansion of the Pell Grants program, (ii) redesigning the Income-Driven Repayment plan to target debt forgiveness, and (iii) conditional cash transfers to poor households for sending children to school.

Moreover, I also analyze two other policies that I conclude are feasible: (i) wealth taxes and (ii) Universal Basic Income (UBI). Regarding wealth taxes, in 2019, Senators Elizabeth Warren and Bernie Sanders proposed plans to target wealthy individuals to address inequality. While the U.S. has yet to implement such a tax, other countries have. The paper analyzes the effect of a wealth tax on economic growth and as a means to reduce inequality. Universal Basic Income has gained traction as a solution to economic inequality and social welfare concerns and is often viewed as a response to contemporary workforce challenges. After considering wealth taxes, the paper examines the pros and cons of a UBI, the cost of such a program, and the possible effects on labor supply in the future.

The rest of this paper is structured to elaborate on these policy options: Section 2 offers an overview of academic research on income redistribution. Section 3 explores similarities between the United States and other nations' economies as grounds for comparison. Section 4 discusses various approaches to income redistribution, examining their impacts and effectiveness. Finally, Section 5 concludes and suggests areas for future research.

Literature Review:

Classical literature emphasizes that inequality can promote growth. As shown in Figure 1, Line E, inequality is said to foster incentives for innovation and entrepreneurship. This raises savings and investment if rich people save a higher fraction of their income and allow at least a few individuals to accumulate the minimum needed to start businesses.³ A parallel body of literature argues that replacing physical capital with human capital accumulation as a prime engine of economic growth has changed the qualitative impact of inequality on the development process. In the early stages of the Industrial Revolution, when physical capital accumulation was the primary source of economic growth, inequality enhanced the development process by channeling resources towards individuals whose marginal propensity to save was higher. In later stages of development, however, human capital becomes the primary growth engine. Since human capital is inherently embodied in humans and its accumulation is more significant if shared by a larger segment of society, equality, in the presence of credit constraints, stimulates investment in human capital and promotes economic growth. Moreover, adopting skill-biased technologies increases the return to human capital and, thus, given credit constraints, strengthens the positive effect of equality on human capital accumulation and economic growth.⁴

Regarding redistribution and growth, the economic policy literature has similarly generally assumed that redistribution hurts growth (Figure 1, Line D) as higher taxes and subsidies dampen incentives to work and invest.⁵ The idea that there will always be inefficiencies associated with redistributive policies was popularized by Okun, who put forward a metaphor of the "leaky bucket" to explain the equality-efficiency trade-off. Okun argued: "The money must be carried from the rich to the poor in a leaky bucket. Some of it will disappear in transit, so the poor will not receive all the money taken from the rich."⁶ According to this theory, losses are likely to be an increasing and convex function of the tax or subsidy rate. However, some have recognized that redistribution need not be inherently detrimental to growth to the degree that it involves reducing tax expenditures or loopholes that benefit the rich or as part of broader tax reforms (e.g., higher inheritance taxes offset by lower taxes on labor income). More broadly, redistribution can also occur when progressive taxes finance public investment or other pro-poor spending, when social insurance spending enhances the welfare of low-income people, or when health and education spending that benefits the poor increases. In such cases, redistributive policies could increase both equality and growth.⁷

Berg *et al.* (2018) examine the role of redistribution and inequality as growth drivers in a basic empirical model. Their analysis allows us to see whether inequality matters for growth independent of its effects on redistribution. Their conclusions are as follows. First, inequality is a robust and powerful determinant of both the pace of medium-term growth and the duration of growth spells, even controlling for the size of redistributive transfers: more equal societies grow faster and more sustainably than less equal ones. Second, there is surprisingly little evidence for Okun's "leaky bucket" hypothesis: that fiscal redistribution at a macroeconomic level has growth-destroying effects. Fiscal redistribution, unless extreme, may be a win-win policy because it promotes equality and growth. Berg *et al.* find mixed evidence that large-scale redistribution directly affects overall growth rates. However, there is no evidence of any adverse direct effect from standard levels of redistribution. Third, they find that inequality is associated with lower human and physical capital investment, higher fertility, and weaker political institutions. Inequality seems to lower growth mainly through its effects on education, life expectancy, and fertility.

Based on the existing literature, there are strong grounds to study the possible "win-win" effects of different redistributive policy options. The United States is one such case where inequality and growth have been high relative to peer nations. It raises the question of what policies can reduce inequality while having minimal impacts on or even improving overall growth.

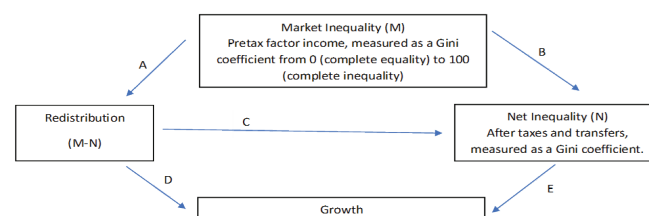


Figure 1: Classical literature suggests that inequality can promote growth by fostering incentives for innovation and entrepreneurship. However, as economies evolve and human capital becomes the primary growth engine, equality promotes investment in human capital and thus, economic growth. Traditional economic policy literature has assumed that redistribution hurts growth by dampening incentives to work. More recent studies indicate that more equal societies grow faster and more sustainably, with little evidence supporting the idea that fiscal redistribution harms growth, suggesting that redistribution policies can potentially enhance both equality and growth.⁸

Research Design:

Exploring strategies from global contexts offers valuable insights for the United States. Sweden, Norway, and Finland use high taxation coupled with extensive welfare benefits, including healthcare, education, and unemployment benefits, which results in higher income equality.⁹ Germany's social market economy combines free-market capitalism with significant social policy institutions and funding. Germany introduced a national minimum wage in 2015 to reduce inequality, which negatively affected marginal employment.¹⁰ Canada has a progressive tax system to finance universal healthcare and robust assistance programs.¹¹ Singapore has prioritized economic equity while achieving high growth over the past 30 years. Stiglitz describes four aspects of Singapore's economic model. First, individuals take responsibility for their needs by saving

money in their provident fund. Second, government programs are universal but progressive. Third, the government intervened in income distribution by tilting the balance towards labor. Fourth, universal education programs exist that encourage innovation.¹²

None of these case comparison countries is precisely the same as the United States in terms of economic and social model. However, they have all been successful models of economic growth while also achieving lower levels of inequality. Therefore, the redistributive policies used in these countries are suitable for evaluation in the U.S. case to understand whether they could reduce inequality levels with low or no costs to growth.

■ Result and Discussion

Academic research shows that education can boost children's mobility from poor and low-income families (and from wealthier families) because each additional level of attainment, from a high school degree to a college degree to a professional or graduate degree, adds substantially to income.¹³ These effects are powerful enough to boost the income of adult children from relatively low-income families not only well past the income achieved by their parents but also past the income achieved by many of their peers from more advantaged family backgrounds who did not obtain equivalent education. The strong correlation between education and income supports the widespread belief that a good education offers the strongest chance of improving one's earning potential.

Singapore has prioritized social and economic equity while achieving very high growth rates over the past 30 years. This demonstrates that inequality is not just a matter of social justice but economic performance. Based on Singapore's experience, investing in education offers particular promise to address inequality in the U.S. over the long term.

Reforming the Pell Grants Program:

In the U.S., college graduates earn \$12k more annually than those without college degrees; this "college dividend" has tripled since 1980.¹⁴ However, sticker prices (including tuition, room and board, and other expenses) that reach \$75k per year at some four-year private institutions and \$25-30k at public institutions are staggeringly high. The Pell Grant program provides need-based financial aid to students pursuing undergraduate degrees, with the grant amount determined by family income, size, and the cost of attendance. However, the purchasing power of Pell Grants has steadily eroded over time due to rising tuition costs, leaving many students needing help to cover their educational expenses. For the 2023–24 award year, **the maximum Pell Grant award is \$7,395**. The total amount of Pell Grants available varies depending on family's size and the annual income level, as shown in Figure 2.

Family Size Guideline	2022 Poverty Guideline	Max Pell Parent Annual Income Limit (175% of Poverty Guideline)	Min Pell Parent Annual Income Limit (275% of Poverty Guideline)
2	\$18,310	\$32,043	\$50,353
3	\$23,030	\$40,303	\$63,333
4	\$27,750	\$48,563	\$76,313
5	\$32,470	\$56,823	\$89,293
6	\$37,190	\$65,083	\$102,273

Figure 2: This table outlines how income level and family size affect the Pell Grant award amount. For a family of four, the maximum Pell Grant of \$7,385 is available for annual incomes up to \$48,653, representing 175% of the poverty guideline. The amount of Pell Grant decreases as the income level increases, illustrating the program's design to provide greater support to lower-income families.¹⁵

I examine college affordability for students with different financial resources using Integrated Postsecondary Education Data System (IPEDS) data.¹⁶ The analysis incorporates sticker prices for 4-year public schools and what these schools expect low-income families to pay to incorporate federal grants (average net cost). As shown in Figure 3, students with a family income of up to \$30k annually must pay, on average, \$9,500 at a public university (for income \$30-48k, that amount is \$11,000.) Students rely on federal loans and part-time work to pay these costs. I estimate that doubling Pell Grants will significantly close this affordability gap to \$2105 for families with incomes up to \$30k (family size of 4) and \$3,605 for those between \$30-48k, reducing the student debt burden. Increasing Pell Grants would address affordability barriers and promote social mobility, allowing students from low-income families (economically disadvantaged backgrounds) to pursue post-secondary education without accumulating excessive debt.

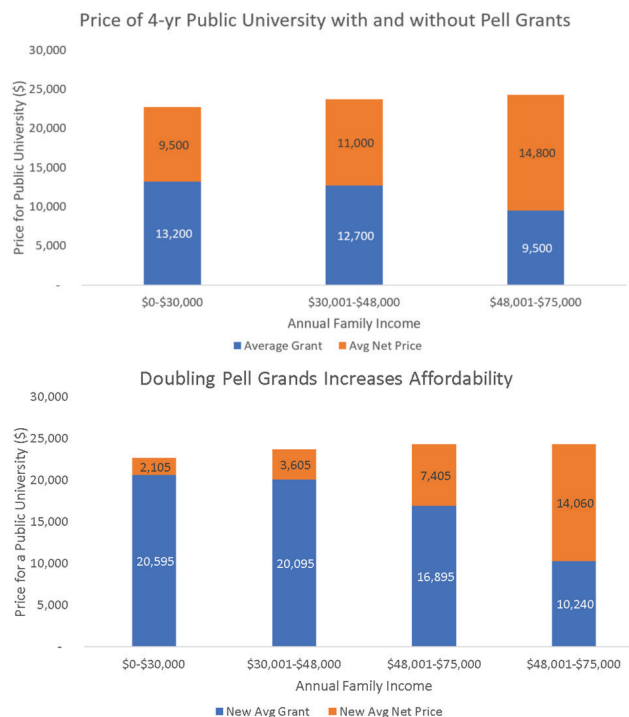


Figure 3: This figure shows the average net price for attending a 4-year public university based on annual family income levels. Students from families earning up to \$30,000 annually, with a family size of four, face an average cost of \$9,500. Doubling Pell Grants could significantly reduce this affordability gap, lowering the average net price to \$2,105 for these families. This highlights the potential impact of increased Pell Grants on making higher education more accessible for low-income students.¹⁷

The Federal Government currently spends approximately \$30 billion annually on the Pell Grants Program.¹⁸ Doubling Pell Grants would increase this cost by an additional \$30 billion annually, as existing recipients would receive nearly twice the aid, and new recipients, previously deterred by affordability, would enroll in college. We believe this investment will lead to increased tax revenue as more low-income students enter the workforce and start earning.

Redesign of Income-Driven Repayment (IDR) plan:

Student education debt in the United States has risen dramatically and stood at \$1.6 trillion in 2020.¹⁹ The root cause of this crisis can be addressed by narrowing the gap between financial aid and the actual cost of education by doubling the Pell Grants.

Figure 4 shows the median student debt (\$) in 2022 by income percentile. While the relationship is non-monotonic, higher-income households are likelier to have student debt and higher student loan balances. Programs targeted at student debt forgiveness have to focus on relief for borrowers in the lower and middle percentiles since the individuals in the highest percentile are professionals who are in a position to pay off their debt.

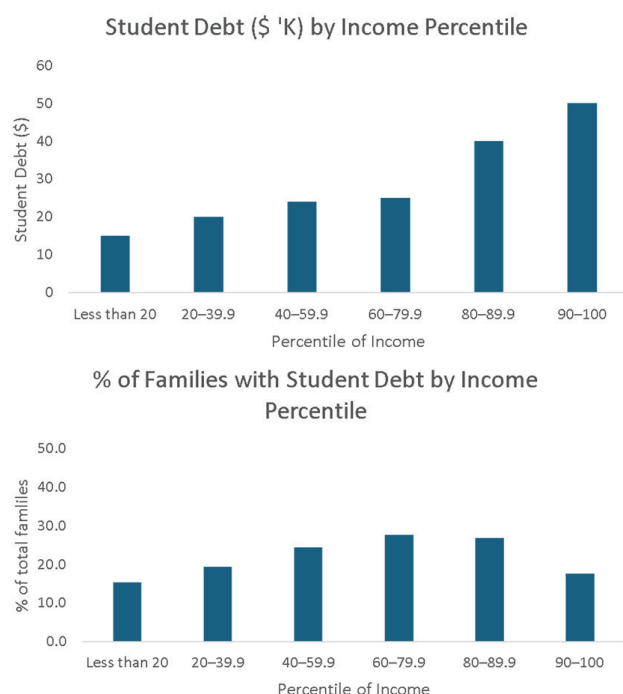


Figure 4: The first figure shows the median student debt (in dollars) in 2022 by income percentile, with higher debt levels concentrated in higher-income households. The second figure shows the percentage of families with student debt across different income percentiles, with a higher concentration of families in the middle-income percentiles. Both charts highlight the importance of designing targeted debt relief programs focusing on lower- and middle-income families. Source: Federal Reserve Board - Survey of Consumer Finances (SCF), 2022

Targeted debt forgiveness exists for some borrowers enrolled in Income-Driven Repayment (IDR) plans, which offer substantial loan forgiveness to low-income borrowers with balances remaining after twenty to twenty-five years, depend-

ing on a borrower's specific plan. IDR plans link payments to income, so borrowers with persistently low incomes will only reimburse a fraction of their debt before it is forgiven. Accordingly, increasing IDR enrollment and increasing the generosity of these plans for targeted debt forgiveness would reduce the debt burden for low-income people. Catherine and Yannelis (2021) model three enhancements to current plans by placing all borrowers in an IDR plan, where borrowers begin paying 10% on income above 1.5x of the federal poverty line. Second, they model forgiving remaining balances after ten years. Finally, they model increasing the repayment threshold to 300% of the federal poverty line.²⁰ The results of the study are shown in Figure 5.

Expanding IDR would lead to substantial forgiveness for the middle of the earnings distribution. Under a policy enrolling all borrowers who would benefit from IDR, individuals in the bottom half of the earnings distribution would receive three-fifths of the dollars forgiven, and borrowers in the top 30% of the earnings distribution would receive one-third of dollars in forgiveness. Raising the threshold to 300% of the poverty line, above which borrowers pay a portion of their income and earlier loan forgiveness (after ten years), leads to a significant increase in forgiveness. However, under accelerating loan forgiveness, these benefits accrue to the top of the earnings distribution. Increasing the repayment threshold to 300% of the poverty line greatly benefits middle-income borrowers. As a result, I recommend increasing enrollment in IDR plans, where borrowers pay 10% of income above 300% of the poverty line.

Enrolling borrowers in an IDR plan, where they contribute 10% of their income above 300% of the poverty line, would lead to \$174 billion in present-value loan forgiveness. This would make the program significantly more costly than doubling Pell Grants.

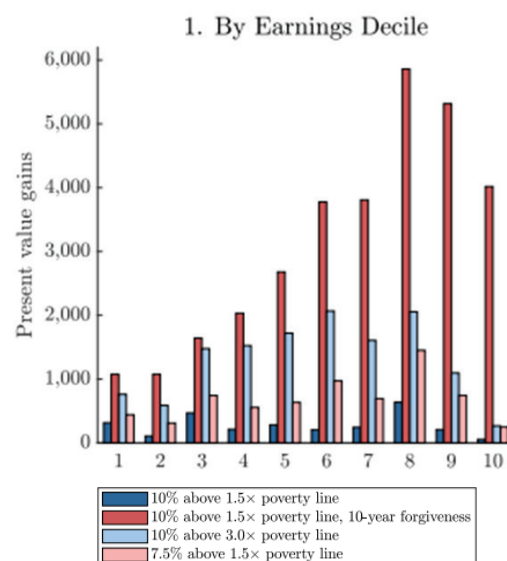


Figure 5: The figure shows the present value gain in dollars from debt forgiveness through various Income-Driven Repayment (IDR) plans for different earnings deciles. Expanding IDR by increasing the debt payment threshold to 10% of income above three times the poverty line greatly benefits low- and middle-income borrowers. Source: Catherine and Yannelis (2021) ²¹

Conditional cash transfers to poor households:

Conditional cash transfer programs give money to households on the condition that they comply with specific pre-defined requirements, such as up-to-date vaccinations or regular school attendance by children. The spread of such initiatives as Mexico's *Progresa*, Colombia's *Familias en Acción*, or Brazil's *Bolsa Família* from Latin America to other developing regions—as well as the results of several pilots in poorer sub-Saharan African countries—shows the progress made in the last 15 years or so in the field of redistribution. Bianchi and Bobba (2013) consider *Progresa*, a welfare program in rural Mexico, and show that cash transfers significantly increase entry into entrepreneurship by enhancing the willingness to bear risk instead of simply relaxing current liquidity constraints.

Attanasio *et al.* (2023) assess the effects of *Familias en Acción* (FeA) on a broad set of outcomes to identify potential effects beyond the short-run effects previously found on education and poverty.²² Colombia first implemented FeA in 2002 and initially targeted rural households. In 2007, FeA expanded and began to include the poorest households in urban areas, based on the Sisben score, a proxy-means test implemented in Colombia in the early 1990s. The transfers targeted the female household head, typically the children's mother. The transfers were conditional on children under seven attending regular health check-ups and children seven and older attending at least 80% of school classes. Beyond their standard poverty alleviation role, these programs have critical long-term impacts on crime, informality, and financial inclusion for the younger generation.

Conditional cash transfer (CCT) programs have become a key policy in developing countries to support impoverished households and improve their long-run prospects. These programs offer much-needed support to families in need while providing longer-term beneficial effects to the children growing up in these families.

CCT programs have almost exclusively been tested in developing country contexts. Before utilizing such a program in the U.S. or a similar advanced economy, further evidence would need to be collected on its appropriateness and utility. There may also be political or implementation challenges that need to be considered. Next, I evaluate two other proposals to reduce inequality that have been discussed or applied in developed countries – wealth taxes and UBI.

Wealth Tax:

A progressive wealth tax is an annual tax collected on net household wealth that applies higher rates as wealth increases, which could reduce wealth inequality in the United States.²³ In 2019, two prominent U.S. presidential candidates, Elizabeth Warren and Bernie Sanders, introduced a wealth tax proposal to address inequality. Warren's plan targeted individuals or families with a net worth over \$50 million, with a 2 percent marginal tax rate (3 percent for billionaires). Sanders proposed a similar tax starting at \$32 million, with rates increasing from 1 percent and reaching up to 8 percent for the wealthiest.

Critics of wealth taxes point to their failure in Europe, evasion issues, and potential negative economic impacts such as

a reduction in capital stock or a decrease in innovation. For a progressive wealth tax to become effective, we need higher exemption thresholds than were considered in Europe to ensure that the right population is subject to this tax. Low exemption thresholds also caused problems for moderately wealthy taxpayers with few liquid assets and limited cash incomes. Measuring wealth is often tricky and subjective; relying on self-assessments and enforcing this tax would be challenging.

There are numerous examples of innovators who have been immigrants to the United States who amassed significant wealth from their inventions. Innovators often also bring substantial economic gains to the broader economy, such as bringing new products to market or increasing market efficiency.²⁴ Alexander Graham Bell invented the telephone and created the Bell Telephone Company one year later. By 1886, more than 150,000 people in the United States owned telephones. Similarly, James L. Kraft patented a pasteurization technique for cheese and established his company, Kraft Foods Inc., which would grow into a conglomerate responsible for creating some of the United States' most popular food products. A competitive tax environment may help the U.S. retain its competitive edge by encouraging domestic and international innovators to cluster in its national markets.

There is also evidence that innovators move jurisdiction to avoid high taxation. Akcigit, Baslandze, and Stantcheva (2016) find that top tax rates significantly affect superstar top one percent inventors, with an average of 1019 citation-weighted patents, when deciding which country to locate. Evidence shows that these tax arbitrage behaviors are more broadly among high-earning individuals. In a widely cited study of millionaire soccer stars, for example, Saez and his co-authors find that the overall location responses to the net-of-tax rate are positive and large, with an elasticity of the number of foreign players to the net-of-tax rate around one. In other words, foreign players move more readily in response to higher taxes than local players.²⁵ In a modern world where travel and relocation across borders are more accessible, it is reasonable to assume that very high taxation for top-rate earners will lead to tax arbitrage by these individuals. In turn, a high amount of relocation can deplete domestic innovation and reduce economic competitiveness.

Further research needs to be done to evaluate whether high taxes on individuals, such as a wealth tax, would discourage young innovators. We note that over half of the fifteen wealthiest people in the United States built fortunes within their lifetime.²⁶ A wealth tax could incentivize them to do so from outside the U.S., eroding the advantage the United States enjoys in innovation. Potential wealth tax havens would also lure venture capitalists and startups.

Given the potential for a negative impact on future economic growth and the challenges of implementing such a policy, this will likely be an effective tool if evidence shows that tax arbitrage can be prevented.

Universal Basic Income (UBI):

UBI refers to a program that is available to everyone without targeting based on family structure, presence of children,

age, or disability status. It is provided to those without earned income and even without any effort to find work. It is also provided to those with relatively high earned income, not only those in deep poverty. UBI is viewed not only as a poverty alleviation measure but also as a response to current workforce challenges such as wage disparities, job insecurity, and potential job losses due to artificial intelligence.

Pilot programs for UBI are ongoing in several countries such as Canada, Brazil, Finland, Switzerland, and the U.S. Table 1 shows that a universal payment of \$12,000 per year to each U.S. resident over 18 would cost roughly \$3 trillion annually, around 75% of current total federal expenditures.²⁷ Thus, implementing UBI without cuts to other programs would require nearly doubling federal tax revenues or increasing public debt. Table 1 also presents an alternative UBI policy that limits transfers to adults under 65. This approach lowers the costs somewhat but would still cost several multiples of the existing nonretirement, non-health insurance safety net.

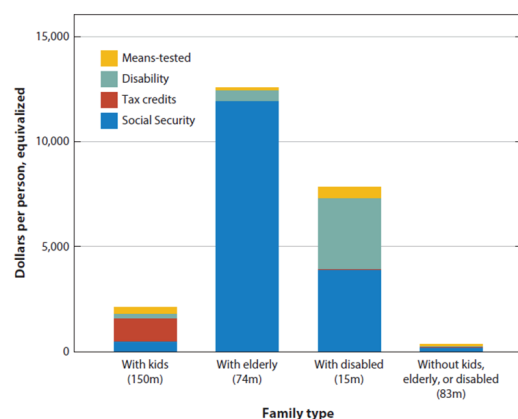


Figure 6: The figure shows the average transfers per person across four family types and the population counts each group represents. There is significant variation in non-health government transfers, with elderly households receiving the most dollars per person, followed by disabled households. Transfers to families with children are lower but more targeted, while families without children, elderly, or disabled members receive very little in benefits, even at low incomes.

Source: Hoynes and Rothstein (2019), with data from the 2017 Current Population Survey Annual Social and Economic Supplement.

Table 1 groups programs into four aggregates: means-tested (welfare) programs, encompassing TANF and SNAP; disability programs (SSI and SSDI); Social Security retirement; and tax credits (EITC and CTC). As this table shows, a large share of current transfer spending goes to families with the elderly, people with disabilities, and children, and eligibility is heavily means-tested. Figure 6 shows average transfers across the four family type groups and the population counts each group represents. This shows the tremendous variation in the amount of (non-health) government transfers across groups, with the average elderly household receiving \$12,600 per equivalized person, disabled households receiving \$8,000, and nonelderly, nondisabled households with and without children receiving \$2,200 and \$500, respectively. Transfers to families with children are lower and more targeted. Families without children, elderly, or disabled individuals receive very little in benefits, even at low incomes.

Table 1: Capital expenditure for select transfer programs. A large share of current transfer spending goes to families with the elderly, people with disabilities, and children, with eligibility heavily means-tested. Table 1 shows that a universal payment of \$12,000 annually to each U.S. resident over 18 would cost roughly \$3 trillion annually. The table also presents an alternative UBI policy that limits transfers to adults under 65, which would still be expensive at \$2.4 trillion annually.

Source: Hoynes and Rothstein (2019).

Select Transfer Programs	Outlay \$ (B)
Cash Welfare Programs (TANF)	22
In-kind Welfare (SNAP etc.)	113
Tax Credits	123
Disability	182
Social insurance (social security)	828
Health Insurance (Medicare and Medicaid)	1,071
Total costs	2,340

Potential UBI	
Canonical (18+ yrs)	3,025
Age-limit (18-64 yrs)	2,414

A UBI would significantly impact income distribution. Implementing a UBI alongside existing transfer systems would lead to substantial income redistribution downward. However, replacing current programs with a UBI could reduce support for low-income families. Compared to current transfer programs, a standard UBI would allocate more funds to younger, non-disabled workers and families without children, with less going to the elderly, disabled, and families with children. While the government would not replace significant programs like Social Security and Medicare, redundant programs like EITC, CTC, TANF, SNAP, disability, and unemployment insurance might see reduced need. However, funding a UBI poses challenges, especially if other major programs were to be preserved. If Social Security, Medicare, and Medicaid are maintained, the remaining programs would cover only about one-fifth of the cost of the canonical UBI. The government would need to fund the remaining through cuts to other government expenditures or tax increases.

UBI proposals reduce labor supply relative to a no-transfer hypothetical baseline or the status quo. Some advocates support a UBI because it would eliminate the need to work for some low-skill workers who may be displaced by technological change or otherwise occupied in unpaid care work. In that case, reductions in work are a desirable impact, not an unintended consequence. UBI will shift labor supply from unpleasant jobs to jobs with opportunities for human capital accumulation or those more aligned to individual preferences.²⁸ However, this shift may leave labor shortages if society needs people performing even less popular jobs. While UBI would lower labor supply in the short run, the long-run impact remains unclear.

■ Conclusion

This paper has presented an overview of the current state of inequality in the United States, emphasizing the significant gaps in income and wealth distribution. After examining various tools to address this issue, it concluded that investment

in education holds the most promise. At the same time, other approaches like wealth tax and universal basic income would be less effective in reducing inequality. A pragmatic blend of targeted social education programs, including doubling Pell Grants, redesigning the IDR program for student debt forgiveness, and providing conditional cash transfers to support education for underprivileged children, emerge as feasible and potentially impactful strategies for income redistribution.

Nevertheless, it is crucial to recognize the challenges associated with implementing such policies in the U.S., given the complexity and contentious nature of policy change.²⁹ While this research provides valuable insights, it also has limitations. Future research could further explore the impact of wealth taxes on young innovators and entrepreneurship, drawing comparisons with international examples. Additionally, future research could delve further into the cost and feasibility of implementing a UBI, especially in addressing anticipated unemployment challenges resulting from Artificial Intelligence. Until further evidence is collected, facilitating redistribution through increasing educational grants remains the most feasible method of reducing income inequality. Improving educational grants would cost the federal government approximately \$30 billion per year—significantly less than other alternatives we’ve considered—offering a fiscally sustainable pathway to reducing economic inequality in the United States. It would offer the next generation of Americans more equal opportunities for economic success.

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■ Authors

Neel Mathur is a Hunter College High School senior in New York City who avidly enjoys writing about economics. He hopes that his deep understanding of economic concepts, combined with his passion for exploring current economic events, will make him a valuable voice in the economics community. Neel’s commitment to excellence and competitive spirit drive his ongoing pursuit of knowledge and impactful research in the economics sector.