

# Is Predistribution Superior to Redistribution?\*

By

Ravi Kanbur

[www.kanbur.dyson.cornell.edu](http://www.kanbur.dyson.cornell.edu)

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## Abstract

I examine the roots of a recent move away from the post-war social democratic consensus on a predominant role for post-market tax and transfer redistribution, towards transforming the pre-market distribution of income earning capabilities (predistribution). This shift from redistribution to predistribution is underpinned by arguments highlighting (i) incentive costs of redistribution, (ii) the greater moral legitimacy of predistribution and (iii) political economy preference for predistribution. These arguments need to be examined closely on conceptual, empirical and policy grounds and, when this is done, I believe that the case for robust redistribution remains as strong as ever.

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## 1. Introduction

Whether or not to redistribute, and if so, how much, how, and for what purpose, has been a staple of policy discourse for centuries. Thucydides refers to the eisphora tax, levied on Athenian citizens in 428 BC to fund the siege of Mytilene during the Peloponnesian War (Christ, 2007). And a passage in Aristophanes' 424 BC play *Knights* suggests that the tax may have been on the wealthy, when one protagonist threatens another thus:

"You'll pay me a fine penalty for this, being pressed by eisphora, for I will fix it so that you are registered among the wealthy." (quoted in Christ, 2007, p. 54).

In modern times, Adam Smith put forward his principles of taxation in *The Wealth of Nations* (Book V, Chapter II, Part II), the very first being that:

"The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state....".

In the twentieth century, debates on whether and how to tax continued apace, linked inextricably to views and counterviews on the legitimacy and efficacy of redistribution per se. Oliver Wendell Holmes famously declared himself content to pay taxes as the price of civilization. In the telling of Felix Frankfurter (1938):

"He did not have a curmudgeon's feelings about his own taxes. A secretary who exclaimed 'Don't you hate to pay taxes!' was rebuked with the hot response, 'No, young feller. I like to pay taxes. With them I buy civilization.'"

But Robert Nozick (1974) famously declared that:

"Taxation of Earnings is on par with forced labor."

Nozick characterized taxes as akin to slavery and thus took a strong stance against taxation of market incomes. The opposition between Nozick's (1974) libertarian *Anarchy, State and Utopia* and John Rawls's (1971) egalitarian *A Theory of Justice* has been the stuff of debates in the 1970s and 1980s, right down to the present day. A contrary perspective to Nozick is provided for example by (Murphy and Nagel, 2022, p. 8)

"Taxes must be evaluated as part of the overall system of property rights that they help to create. Justice or injustice in taxation can only mean justice or injustice in the system of property rights and entitlements that result from a particular tax regime."

But egalitarian thinking has taken an interesting and important turn in the 21st century. In this paper I want to examine the roots of what I see as a trend in the analytical literature and policy discourse of the last quarter century. There is a move away from what might be termed the post-war social democratic consensus on a predominant role for post-market tax and transfer redistribution. There is significant disenchantment with what are seen as the standard approaches with their considerable problems. Rather, the focus is shifting towards affecting the pre-market distribution of income earning capabilities which generate the market incomes in the first place. In particular, there is a focus on equalizing the distribution of education and health, and human capital in

general. The ensemble of such policies is referred to as predistribution and contrasted with conventional redistribution.

Here is how the then leader of the United Kingdom Labour Party Ed Miliband (2012) presented it to a general audience in a political setting:

“Think about somebody working in a call centre, a supermarket, or in an old people’s home. Redistribution offers a top-up to their wages. Predistribution seeks to go further—higher skills with higher wages.”

In other words, a move away from redistribution (i.e. equalization of post-market incomes) to predistribution (ie equalization of pre-market human capital).

The political discourse is underpinned by a growing consensus in the academic literature. In their magisterial review of taxation through the ages, Keen and Slemrod (2022, p.380) summarize one of their key lessons as follows:

“...it is important to remember that taxes, even including negative ones in the form of cash benefits, are only one weapon in the policy arsenal for addressing vertical equity, and may not even be the most effective of them. One of the most powerful ways in which governments support the poor—especially in low income countries—is by providing basic education and health care. By enabling such spending, a not-very progressive tax that raises a lot of revenue such as VAT, can do more for the poor than a very progressive one that raises little.”

In a recent review of the academic literature, particularly focused on developing countries, Ferreira (2023, p. 14) concludes:

“My reading is that there is a growing consensus on “*predistribution*” policies, but perhaps less so on re-distribution policies. Predistribution refers to public investments intended to enhance the human capital accumulation of the least advantaged...”

Piketty et. al. (2022), reporting on the detailed analysis in Bozio et. al. (2024), echo the same sentiment when they say:

“...policy discussions on inequality should pay more attention to policies affecting pre-tax inequality and should not focus exclusively on redistribution.”

My primary focus here is on predistribution the way Ferreira (2023) characterizes it above, as “public investments intended to enhance the human capital accumulation of the least advantaged.” Predistribution has also been seen in wider terms, as characterized for example by Hacker (2011): “focus on market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits.” Regulation of monopsony power through minimum wages or support of unions, for example, would also fit this bill. Here I take the route of public investments and human capital, although I will discuss these other types of interventions briefly at the end of the paper.

I argue (Kanbur 2023a) that there are three underlying arguments which underpin this trend from redistribution to predistribution.

- First is the accumulation of knowledge about the many issues with taxation of market incomes—incentive effects, information costs, implementation and compliance. With this comes the sense that it may be better to redistribute pre-market human capital, even to achieve equality of post market incomes.
- Second is the argument that it is morally superior to target pre-market income earning capacity because post-market inequality incorporates variations in effort, and individuals have a legitimate moral claim to the outcomes of their effort.
- Third is the argument that predistribution is an easier political sell than redistribution, perhaps for a combination of the first two reasons.

I believe that each of these arguments can be challenged. At least, they have had a too easy a ride in the analytical literature, and the crystallizing consensus on the shift away from redistribution towards predistribution needs to be examined more closely.

## 2. Optimal Income Taxation: The Mirrlees Framework

The essence of the economic analysis of redistribution through taxes and transfers is present in James Mirrlees's 1971 Noble Prize-winning paper, "An Exploration in the Theory of Income Taxation." In the Mirrlees model individuals bring different degrees of exogenously given productivity to the marketplace and translate it into market income through their choice of labor supply. The government implements an income tax regime, which affects labor supply. The government chooses a tax regime to maximize an objective function defined on individual wellbeings, in fact the sum of these wellbeings, subject to the constraint of respecting individual choices and the constraint of raising a given amount of revenue.

This classic paper has all the ingredients to make it a quintessentially economic analysis.

- It has individual choices in response to taxation, thus bringing in incentive effects.
- It has a clear statement of the government's constraints.
- It has a clear statement of the government's objective function.
- It has optimization of the objective function subject to the constraints.

The model provides a framework for thinking about equity and efficiency in discussion of taxation and transfers. It has been hugely consequential not only in the analytical realm but directly in the policy discourse, for example in UK decisions on the top rate of marginal tax through the "Mirrlees Review" (Atkinson, 2015, pp 184-185).

In terms of the framing, what a statement of a shift to predistribution means is this: Let us focus more on the distribution of productivities individuals bring to the market (equalize education, say) and not so much on the redistribution of post market incomes. This is a way of interpreting the Keen-Slemrod (2022) statement quoted earlier—reduce the progressivity of the income tax, which will raise more revenue, and use this higher revenue to provide greater levels of (equal) education. But in order to conduct a rigorous analysis of joint optimization of redistribution and education provision to assess the validity of this reasoning, we now need to extend the basic Mirrlees model to incorporate a theory of how market productivities are themselves produced through say education, and how public inputs combine with private inputs to generate the market productivities.

In fact, there are many, by now hundreds, of papers which look at income taxation and funding of education jointly in the Mirrlees optimal taxation framework. These papers use different types of modeling of the education sector, private investment in education, deployment of public expenditure in education, how private inputs and public inputs combine to produce market relevant human capital, parental preferences, intergenerational aspects, etc. However, although there are lots of specificities I would propose one broad summary of the "center of gravity" of results as they apply to our concerns and it is this: There is no strong presumption for the broad narrative that progressivity of income tax should necessarily be lowered in order to expand public provision of education.

There does not really exist an authoritative survey which puts these myriad results into a structured set of conclusions. Following are some conclusions from papers over the past four decades which convey, I believe, a sense of the tenor of the findings:

“...the results of this paper suggest that the introduction of income redistribution makes for greater regressivity of educational policies.” (Ulph, 1977, p. 354)

“This paper studies the education policy chosen by a utilitarian government.....Households can use private education, but cannot borrow to finance it. The government can finance education with income tax, but at the cost of blunting the individuals' incentive to exert labour market effort. The optimal education policy we derive is elitist: it increases the spread between the educational achievement of the bright and the less bright individuals, compared to private provision.” (De Fraja, 2002, p. 437).

“If human capital stimulates labor supply, and hence generates additional resources more than it amplifies existing pretax inequality, it reduces after-tax income inequality on balance. This occurs when the elasticity of the wage with respect to ability is decreasing in human capital or, put differently, when high-ability agents do not disproportionately benefit from human capital. In this case, the optimal net subsidy on human capital expenses is positive and increasing over time.” (Stantcheva, 2017, p. 1977).

“Using a household production model of educational choices, we characterise a free market situation in which some agents (high wagers) fully educate their children and spend a sizable amount of resources on them, while others (low wagers) educate them only partially.... Redistributive taxation and compulsory education are...best seen as complementary policies.” (Balestrino, 2017, p. 537).

Despite the varied modeling strategies of these and other papers in the literature, I believe the basic economic intuitions center on two factors (Haaparanta et. al. 2022). First, once choices are introduced on the education side, there are incentive effects there as well, the relative magnitudes of these compared to labor-leisure choice distortions become important, and these depend on quite specific features of the education production function and the utility functions. Second, if private inputs matter along with public inputs to the final outcome through a human capital production function, then inequality of market income is itself a key determinant of the inequality of human capital. Thus, the simple, simplistic, line of reasoning from less progressive taxation to more equal distribution of education breaks down.

One might summarize as follows the doubts about the shift from redistribution to predistribution because of the difficulties of redistribution:

- Just because redistributing through income taxation is difficult does not mean that redistributing through other avenues is easy.
- It is not that there are no incentive effects in redistributing education.
- It is not that state educational expenditures are themselves particularly equally distributed.
- And the moment we model market relevant human capital as being the product of both public inputs and private parental inputs, the distribution of income is seen to play a key role in the distribution of education and human capital. Predistribution requires redistribution (Tuomala et. al. et al 2022).

Thus, the grass is not greener on the other side. At the very least we need to fully assess the difficulties in other channels before quite so easily advocating a shift away from income redistribution through taxes and transfers.

### 3. Non-Utilitarian Objectives: Equality of Opportunity versus Outcome

The Mirrleesian objective function is Utilitarian--an aggregate of individual utilities. As Jeremy Bentham famously said, "it is the greatest happiness of the greatest number that is the measure of right and wrong." It can be argued that, a la Mirrlees, Utilitarianism is in the DNA of normative economic analysis, explicitly or implicitly. However, congenial though it may be to economist sensibilities, Utilitarianism has of course been criticized from various quarters. Amartya Sen and Bernard Williams (1982) highlighted what they saw as the three enduring critiques of Utilitarianism: consequentialism, welfarism and sum-ranking.

- Consequentialism refers to the characteristic that what matters in evaluation are consequences and only consequences.
- Welfarism refers to the characteristic that what matters among consequences is the wellbeing, or utility, of individuals as perceived by individuals themselves.
- Sum-ranking refers to the characteristic that what matters in social evaluation is the sum of utilities across individuals.

Two famous departures from Utilitarianism are captured in the work of Rawls (1971) and Nozick (1974). Of Rawls's two principles of justice the second, the "difference principle" which states that policy should be targeted towards the wellbeing of the worst off ("maxi-min"), was argued early on by Arrow (1973) to be consistent with fairly standard distributional principles in economics and indeed a special case of them. By considering aversion to inequality of wellbeing, the objective function in Mirrleesian framework can range between a Benthamite sum of utilities to the utility of the worst off as the objective function. What really sets Rawls apart from Utilitarianism is his first and dominant prior principle on "basic liberties" ("freedom of thought and liberty of conscience; the political liberties and freedom of association, as well as the freedoms specified by the liberty and integrity of the person; and finally, the rights and liberties covered by the rule of law."). But this does not seem to have impacted economists' analysis of optimal taxation. For the economist, it seems as though the two principles inhabit separate worlds, and we can carry on our business with reference to the second principle (and that too as a special case).

The Nozickian paradigm is not quite so conducive to optimal tax theory since it holds that NO taxation is legitimate (beyond that needed for a minimalist state). The paradigm draws from earlier traditions of natural rights going back at least as far as John Locke. Nozick famously asserts: "Individuals have rights, and there are things no person or group may do to them (without violating their rights)." These rights emerge from the initial state of nature from which individuals develop mechanisms to enforce contracts, and to prevent theft and fraud. Individuals then have rights to hold and dispose of property justly acquired. Going beyond the minimalist state functions, in particular attempting redistribution of property or returns to property, is to violate these rights. Thus, while Rawls's first level principle does not preclude redistribution through his second principle, Nozick's first core principle leaves no room for a second principle: "Any more extensive state will violate persons' rights not to be forced to do certain things, and is unjustified." Hence it follows, in another famous Nozickian statement, that "Taxation of earnings is on par with forced labor."



Of course, there are many questions that can be posed to the Nozickian paradigm:

- The exact specification of the minimalist state is not clear. Presumably public goods like parks are not included. A standing army presumably is, as is a police force, as is a functioning justice system. But how big and what exact functions?
- Whatever the resources needed for the minimalist state, the question of how they are to be raised is still left open. Who should pay how much? Equal amounts? In proportion to market income? Or some other notion of leaving the market distribution intact? Or in a manner which has least efficiency costs in the economic sense, thus minimizing the costs of the minimal state? The Mirrleesian framework can help with the last of these for sure!
- There is also Nozick's "rectification principle", that property unjustly acquired must be corrected. Leaving to one side the identification of such injustice, its rectification surely once again raises the question of optimal income taxation as economists understand it.
- Further, if inequality itself could be a threat to society functioning, could restricting inequality below the critical level be part of a minimalist state?

So, I do not think that a Nozickian perspective can entirely banish taxation and the theory of optimal income taxation. However, it has left an important mark on the current debates on progressive taxation of income, not necessarily in the stark and extreme sense of "taxation is slavery", but nevertheless present. The impact on current discussions of optimal income taxation is through the specification of the government's objective function. Not through incentives, which still matter; not through constraints, which still matter; but through what it is we model the government as maximizing.

The Nozickian position is that there is no justification for income taxation (except for the minimalist state) to interfere with the free choices of individuals, and certainly not for redistributive purposes. An intermediate position could be that there are restrictions on redistribution but there is justification of taxation for some redistribution under specified conditions. In particular, in the spirit of Nozick, variations in income attributable to individual choice and factors under the individual's control are not legitimate targets for redistribution. This perspective seems to have been largely accepted by even egalitarians of note:

"In the welfarist tradition of social-choice theory, egalitarianism means equality of welfare or utility. Conservative critics of egalitarianism rightly protest that it is highly questionable that this kind of equality is ethically desirable, as it fails to hold persons responsible for their choices, or for their preferences..." (Roemer and Trannoy, 2015, p.218)

However, variations in income attributable to factors outside the individual's control, such as race, gender or parental wealth, are ethically legitimate targets for redistribution which also jibes to some extent with Nozick's rectification principle.

This will be recognized as the "inequality of opportunity" rationale for taxation to redistribute, as opposed to solely "inequality of outcomes." The modern revival of this perspective in economics

owes much to John Roemer (1998), who coined the terms “circumstance” and “effort” for factors respectively outside and inside the control of the individual. It also has a pedigree in moral and political philosophy, going back least to Ronald Dworkin (1981a, b). Indeed, Marxist philosopher Gerry Cohen (1989) lauded Dworkin for helping egalitarianism by “incorporating within it the most powerful idea in the arsenal of the anti-egalitarian right: the idea of choice and responsibility.”

The upshot this line of argument is the position that while it is morally legitimate to redistribute the “circumstances” which individuals bring to the market, it is not legitimate to further redistribute market outcomes which are the result of individual effort, choice and responsibility. I believe that this argument, apparently now conceded by many egalitarians as well, has been instrumental in the twenty first century drift away from the impulse to redistribute market incomes and to try something else—for example “redistributing” education. In other words, predistribution.

However, the equality of opportunity argument itself needs to be examined closely. I have written elsewhere (Kanbur, 2023b) about the empirical difficulties of making the distinction between circumstance and effort in practice in order calculate measures of “inequality of opportunity”. But here are some conceptual difficulties of the circumstance/effort distinction.

Consider first the following conundrum. What happens when one person’s effort becomes another person’s circumstance? The effort doctrine says that the consequences of that effort “belong” to the individual and we have no moral right to alter those consequences. But the circumstance doctrine says that factors outside an individual’s control are a morally legitimate target. Both doctrines cannot be satisfied simultaneously. The most obvious example of such interconnection is parents and children. If free and full knowledge parental choices lead to a poor start for their children, which doctrine is to rule? The answer is not clear and cannot be given within the philosophical framework of the current equality of opportunity discourse.

Conceptually, any form of social connectedness leads to similar difficulties. An executive’s freely chosen decisions lead to the circumstances for the firm’s workers. Freely chosen housing decisions of high-income individuals lead to rising house prices and rising rents for low-income individuals. What Amartya Sen (1983) called “entitlement failure” in his study of the 1943 West Bengal Famine was the freely made market decisions of grain hoarders pushing up food prices, thereby altering the circumstances of artisans and causing famine deaths.

But the conceptual difficulty arises even when there is no social connectedness and we consider individuals in isolation. Imagine yourself serving on a soup line (Kanbur and Wagstaff, 2015). As one particular indigent approaches you and you reach out with a cup of soup, the equality of opportunity police, the circumstance/effort monitors, step in and inform you that the reason why the indigent is an indigent is not because of circumstance but because of effort and choice. In what moral universe would you pull away the cup of soup? If your moral intuition recoils from doing that then it is conceding that outcomes can matter irrespective of choice and that at the very least, we have to carry with us both moral intuitions. Again, note that acting on the intuition by providing support to the worst outcomes will have incentive effects, but so will acting on the other moral intuition, or any moral intuition. The point here is to specify the objective function that is to be optimized subject to incentive compatibility and other constraints. A formal axiomatization of accommodating or balancing both intuitions is presented in Hufe, Kanbur and Peichl (2022).

I have argued elsewhere that these conceptual difficulties significantly undermine the circumstance/effort distinction, quite apart from the empirical difficulties in implementing the distinction in practice (Kanbur and Wagstaff, 2015). But here I would like to say that even if you do not come with me all the way, at least you should question the second argument for the move away from taxation of market incomes for redistribution—that it is morally illegitimate because it interferes with the free choices which lead to those incomes.

#### 4. Broad Predistribution and Political Economy

As noted at the start, my primary focus in this paper has been predistribution seen as achieving a more equal distribution of the education and human capital that individuals bring to the market. Following Hacker (2012), however, there is a broader perspective on predistribution that includes interventions in the market itself which alter the rules of the game through regulations and other policy instruments such as minimum wages. There is an optimal taxation literature which considers the introduction of minimum wages. But the overview by Tuomala (2016) does not suggest that minimum wages should be used to the exclusion of conventional tax and transfer redistribution.

However, the broader conception of predistribution plays a significant role in the third of the reasons I have suggested for the shift in favor of redistribution in the last three decades—political economy considerations. In 2023, philosopher Christine Sypnowich published a lead essay in the general readership magazine *Boston Review*, entitled “Is Equal Opportunity Enough?” Her answer to the question was: No. But others, albeit egalitarians, took issue with her on political economy grounds. Thus educationist Leah Gordon (2023) responded:

“I applaud Sypnowich for reviving attention to equality of results in a manner that is sensitive to the challenges of past efforts. Even so, since outcome-oriented egalitarianism competes with other deeply held American values—merit, private property, and a notion of family according to which one should be free to pass privilege to one’s children—those of us who join Sypnowich in a pluralist, communitarian effort to promote equality of outcome should brace for a fight.”

In the same issue, sociologist Claude Fischer (2023) wrote:

“While Americans endorse egalitarianism in rights, dignity, and opportunity, they still want competitions that result in inequality. That fact, along with other realities, calls for modesty in goals and programs.

Note that, following Hacker (2012), in these statements the notion of predistribution is broader than my primary focus in this paper on achieving a more equal distribution of education and human capital. It extends also to direct interventions in the market to affect the distribution of pre-market incomes. Also taking the broader lens, legal scholar Raskolnikov (2024) builds an argument as to why there would be greater support for predistribution based on the key notion of formal equality in law—same rules for the rich and the poor. He argues that the concept has great intuitive appeal in the population at large and is central in political philosophy. He characterizes it as a “gravitational” force that is ever present, needing justification for deviation and with the deviations facing an ever-present pull in the other direction. Clearly progressive taxation violates formal equality since the law (how much an individual is required to pay to the state) depends on the characteristics of the individual. However, Raskolnikov argues, policies and interventions that are formally market wide will not be seen as violating this principle.

“Formal equality—same rules for the rich and the poor, the strong and the weak—is essential to a modern capitalist democracy.... [L]eading redistributive policies currently advocated by the left will continue to garner only limited support, while alternative emphasis on predistribution rather than redistribution is likely to succeed both in the short and the long run.”

In related vein but through methods more congenial to economists, Kuziemko et. al. (2023 p. 1) present a differentiated picture of changing support for predistribution versus redistribution policies:

“...less-educated Americans differentially support predistribution (e.g., a federal jobs guarantee, higher minimum wages, pro-union industrial relations, and protectionist trade arrangements)...By contrast, more-educated Americans are stronger supporters of redistribution (e.g., higher taxes on the rich)....”

The focus is on support for the Democratic party, and it is argued that the more educated tend to prefer less market intervention and lean more towards redistribution after the market has worked through. The timing of this shift in Democratic party orientation is dated to the 1970s (p. 38):

“We have presented evidence that less-educated voters have long favored more pre-tax- and transfer interventions (“predistribution”) in the economy and labor market. Beginning in the 1970s, Democrats—once champions of these New-Deal-type policies—backed away from this agenda. Coincident with this change was the rise of the “New Democrats”—who were openly skeptical of predistribution and drew their financial support disproportionately from educated, out-of-state donors.”

There is something of a disconnect between the thrust of Gordon (2023), Fischer (2023) and Raskolnikov (2024) on the one hand, and Kuziemko et. al. (2023) on the other. The first three authors seem to argue for a general and enduring support for predistribution policies, while Kuziemko et. al. (2024) in fact document a strong shift towards redistribution among educated supporters of the Democratic party in the US. Thus, at least for some part of the electorate of one country, the shift does not seem to be well established.

More generally, I would argue that a definitive tilt in favor of “opportunity” rather than “outcome” among the population at large (as opposed to analysts) is not well established, particularly for cases of extreme deprivation outcomes (Hufe, Kanbur and Peichl, 2022). The reality of extreme outcomes—starvation, for example, cannot be recreated in laboratory settings where much of the empirical research on attitudes towards distribution is conducted and which underpins academic consensus. Thus while the political economy strand is a powerful line of argument, it needs to be further debated and examined more closely.

## 5. Conclusion

Let me conclude by retracing the narrative of this talk. The Nobel prize winning Mirrlees framework captures the quintessential economic approach to optimal taxation. It has incentives, constraints, and a clear specification of the government's objectives. The Utilitarian foundations of the Mirrlees framework (and, I would argue, much of economic policy analysis) are much debated, leading in particular to the moral philosophical formulations of Rawls and Nozick. The Rawlsian framework, especially his "difference principle", can be and has been incorporated into standard economic analysis of optimal taxation. The Nozickian framework in its pure form is antithetical to optimal taxation exercises because it rejects altogether the moral legitimacy of taxation, except only for a minimalist state and certainly not for redistributive purposes. However, the Nozickian perspective has left its mark on the current discourse on redistributive taxation via the route of personal responsibility and equality of opportunity, and the illegitimacy of taxing to redistribute income inequality caused by differences in individual choice and effort. This moral philosophical perspective has played its part, along with presumed incentive effects and political economy considerations, in underpinning the twenty first century drift away from redistribution of market incomes through taxation, and towards predistribution. However, this drift needs to be closely examined on conceptual, empirical and policy grounds and, when this is done, I believe that the case for robust redistribution remains as strong as ever.

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