"The Distributional Consequences of Government Spending"

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Comments by Felix Rioja
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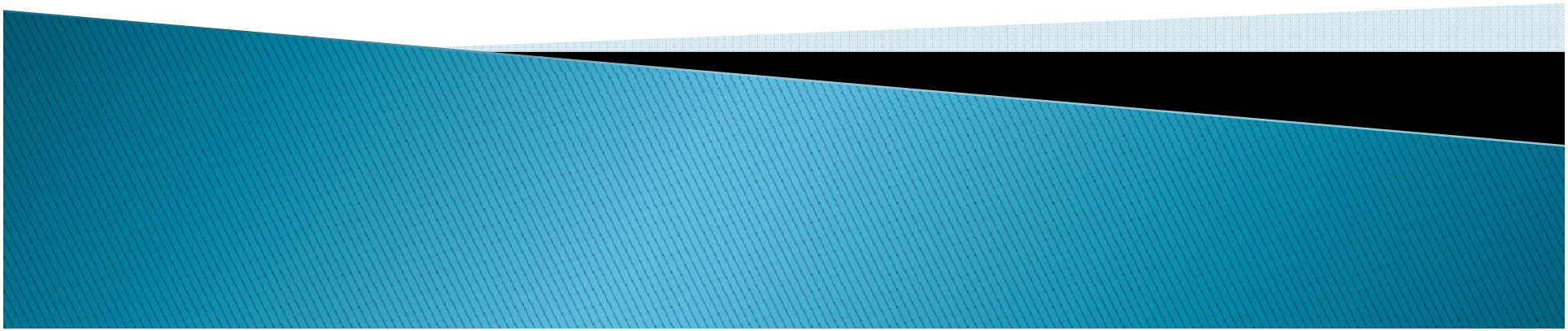
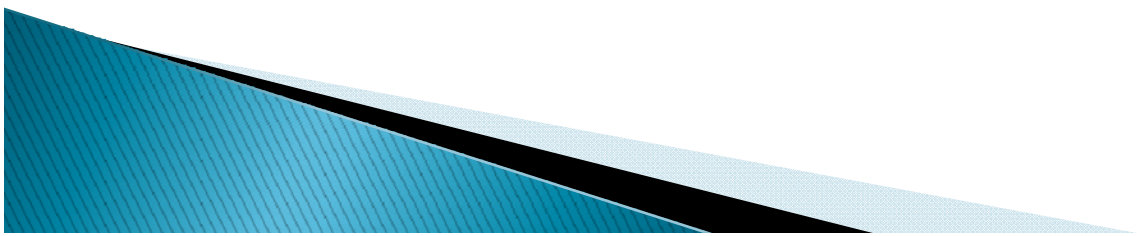


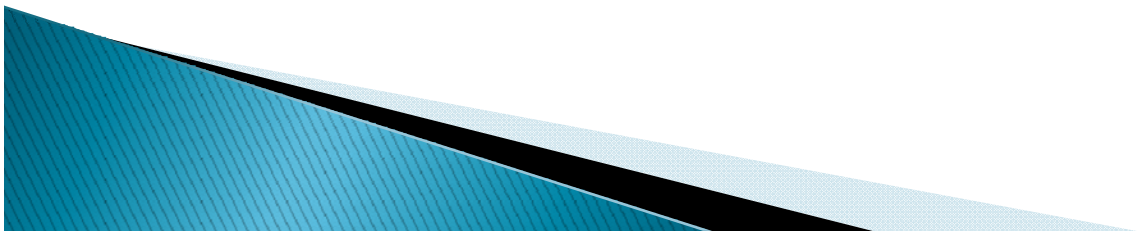
Relationship to literature

- Large literature on public investment and growth
  - Barro (1990); Glomm and Ravikumar (1994); Fisher and Turnovsky (1998); Rioja (1999)
- "evidence on the link between public investment and inequality is sparse, inconclusive, and largely anecdotal" (p.1)



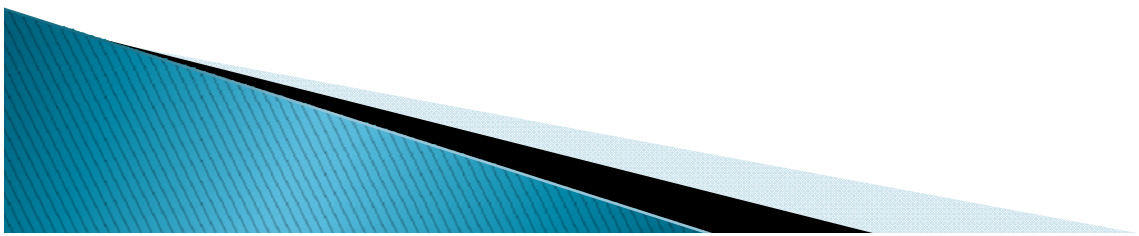
Relationship to literature

- Models must have heterogenous agents to figure out how public investment affects inequality.
- This paper is the first to use a heterogenous agents model to analyze this question, so it makes an excellent contribution.



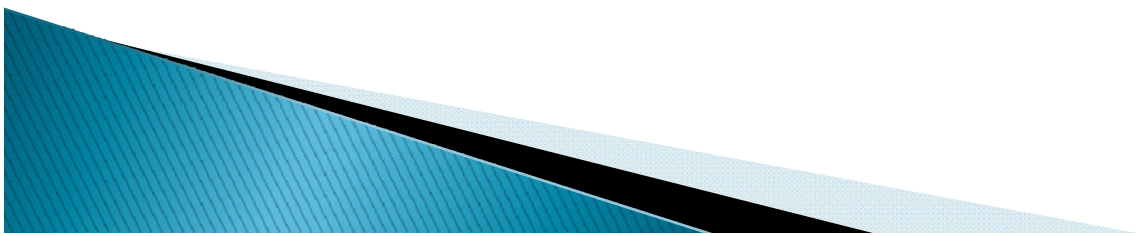
Motivation

- Regardless of model, what is the intuition for the effect of public investment on distribution?
  - Intro should discuss potential channels (story) at the beginning.
- Within the model, what is the intuition?
  - Is it that the rich own more capital so they benefit more from roads?
  - Why is it that the return to capital is such an important determinant of inequality (Atkinson 2003)?



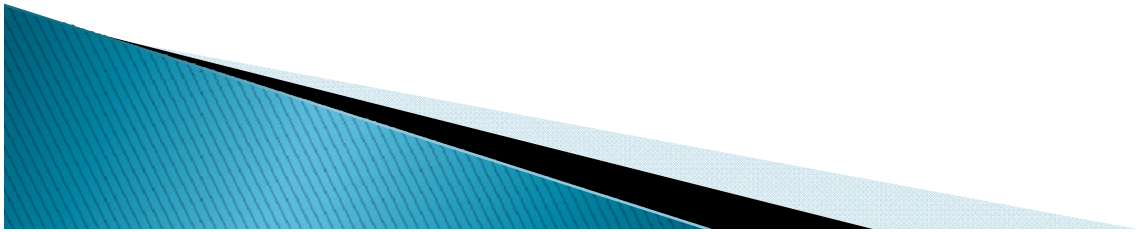
Parameterization

- What country/group is the model parameterized to?
- With $\alpha=0.6$ and $\epsilon=0.6$, the elasticity of public capital $\alpha(1-\epsilon)$ is 0.24
- If calibrating to OECD, this is a little too high
- If calibrating to developing countries, ok, though still on the higher side
- There are more recent studies than the cited Gramlich (1994)
  - Bom and Ligthart (2009) list 67 papers that estimate this parameter. Range: 0.08 to 0.22
- "A=0.6 yields a plausible growth rate of 2.29%"
  - Why not calibrate A to the average OECD growth rate?



Questions

- Symmetrical distribution of wealth from the model? Actual distribution is not.
  - US: Bottom 40% owns 1% of wealth; Top 20% owns 84%
- Can the model be calibrated so the actual distribution of income is matched in the benchmark?
  - Garcia-Peñalosa and Turnovsky (2006) do that using Romer's endogenous growth model



- Overall the paper is very innovative and makes an excellent contribution!